

**CITY OF MADRAS
(Jefferson County, Oregon)**

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

**CITY OF MADRAS
(Jefferson County, Oregon)**

CITY COUNCIL

JUNE 30, 2016

<u>NAME</u>	<u>TERM EXPIRES</u>
Royce Embanks, Jr, Mayor	December 31, 2016
Richard Ladeby	December 31, 2018
William Montgomery	December 31, 2018
Jim Leach	December 31, 2018
Tom Brown	December 31, 2016
Chuck Schmidt	December 31, 2016

CITY ADMINISTRATOR

Gus Burrell

FINANCE DIRECTOR

Kristal Hughes

All council members receive mail at the address listed below:

125 SW E Street
Madras, Oregon 97741

CITY OF MADRAS
(Jefferson County, Oregon)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-15
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	16
Statement of Activities.....	17
Balance Sheet - Governmental Funds.....	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	20
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - to Statement of Activities	21
Statement of Net Position - Proprietary Funds	22
Reconciliation of Proprietary Funds Statement of Net Position - to Statement of Net Position	23
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	24
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds - to Statement of Activities.....	25
Statement of Cash Flows - Proprietary Funds	26
Notes to Basic Financial Statements.....	27-61
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual: General Fund	62
Special Revenue Fund	63
Schedule of Funding Progress and Employer Contributions - Other Post-Employment Benefits	64
Schedule of Funding Progress and Employer Contributions - Pension Related	65

**CITY OF MADRAS
(Jefferson County, Oregon)**

TABLE OF CONTENTS

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Madras Redevelopment Commission	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Madras Redevelopment Commission.....	67
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
MRC General Fund	68
MRC Reinvestment Fund	69
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	
Debt Service Fund	70
Capital Project Fund	71
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Proprietary Funds:	
Water Fund	72
Wastewater Fund	73
Airport Fund	74
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
Internal Service Funds	75
OTHER FINANCIAL SCHEDULES	
Schedule of Outstanding Debt Principal and Interest Transactions.....	76
REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS	
Independent Auditors' Report Required by Oregon State Regulations.....	77-78
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	79-80
Schedule of Findings and Responses	81
POST COMPLIANCE REPORTING DISCLOSURE REQUIREMENTS	82-87



To the Honorable Mayor and
Members of the City Council
Madras, Oregon

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Madras, Oregon, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Madras, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Budgetary Comparison Schedules – General and Special Revenue Funds, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Budgetary Comparison Schedules for the General and Special Revenue Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Budgetary Comparison Schedules – General and Special Revenue Funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The other supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Financial Schedules and Post Compliance Reporting Disclosure Requirements, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the City's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 26, 2015. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 22, 2016, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Brenda Bartlett

Brenda Bartlett, CPA
SGA Certified Public Accountants & Consultants, LLP

December 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Madras (City), we offer readers this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2016. The report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standard Board (GASB). This report should be read in conjunction with the basic financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position decreased over the course of the fiscal year by \$870,653 for total net position of \$46.1 million. This is the net result of a \$1.4 million (8.07%) decrease in the governmental net position and \$500,000 (1.96%) increase in the business-type net position.
- Net capital assets for business-type activities increased approximately \$300,000 (0.78%). Increases are primarily due to increased funding for construction on various projects, including the reconstructions of the airport runway and replacement of airport fuel tanks.
- Property tax revenue increased compared to prior year. Property tax revenues primarily consist of \$1.2 million in the General Fund, \$1,808 million to Debt Service Fund, and \$357,000 related to the Madras Redevelopment Commission (the Urban Renewal District to the City of Madras) for overall property tax revenues of \$1.56 million.
- As of the end of the fiscal year, total governmental funds had an ending fund balance of \$2.8 million, remaining consistent with the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements are comprised of: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide the reader with a broad overview of the City's finances and are made up of the following two statements: the *Statement of Net Position* and the *Statement of Activities*. Both of these statements are prepared using accounting methods similar to those used by private-sector businesses, which use the economic resources measurement focus and the accrual basis of accounting.

- The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

Both of the government-wide financial statements differentiate functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, parks, community development, public safety and highways and streets. The business-type activities (*proprietary fund type*) of the City include the water, wastewater, and airport operations. The government-wide financial statements include not only the City but the legally separate *Madras Redevelopment Commission* (an Urban Renewal District) of the City of Madras for which the City is financially accountable.

Measurement focus and basis of accounting

Governmental financial reporting is characterized as having two distinct objectives for its financial reporting. These objectives are categorized as governmental activities which are supported by levying taxes and business-type activities which are supported by charges for services. The measurement focus for each of these activities is uniquely different, both the governmental-wide financial statements and the business-type activities focus on the changes in economic resources similar to private-sector businesses. The objective of the proprietary fund operating statement is to answer the question, "*What transactions and events have incurred that increase or decrease the fund's total economic resources during the period?*" Therefore, both the governmental-wide and the proprietary funds financial statements are based on full accrual accounting.

Accrual accounting measures the effects of transactions, events, and inter-fund activities when they occur, regardless of the timing of the related cash flows. The measurement focus for governmental funds however, is to view changes in current financial resources. The objective is to answer the question, “*What are the transactions or events of the current period that have increased or decreased the resources available for spending in the near future?*”

Governmental funds use modified accrual accounting in which revenues are not recognized until they are measurable and available, and expenditures are recognized in the period in which governments in general normally liquidate the related liability rather than when the liability is first incurred.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or functions. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City’s funds can be divided into two categories: governmental funds and proprietary funds. Fund financial statements focus on individual parts of the City’s government, reporting the City’s operations in more detail than the government-wide statements.

- ***Governmental funds*** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. These statements tell how governmental services such as the general fund (police department), special revenue fund, Madras Redevelopment Commission, and the debt service fund, were financed in the short term as well as what remains for future spending. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. However, this information does not encompass the additional long-term focus of the government-wide statements. Therefore, both the governmental fund financial statements are followed by a reconciliation that explains the relationship or differences between governmental funds and the governmental-wide financial statements.

The City maintains thirteen individual governmental funds. Of these individual funds, the City considers five funds to be *major governmental funds*. These five major governmental funds - represented individually in the balance sheet and the statement of revenues expenditures, and change in fund balances, consists of the General Fund, the Special Revenue Fund, the Madras Redevelopment Commission, the Debt Service Fund and the Capital Project Fund.

As part of supplementary information, budgetary comparison statements are presented for the reader’s information. These statements compare the original adopted budget along with the final adjusted budget to the year-end actual activities.

- **Proprietary Funds** are similar to business-type activities which utilize full accrual accounting. The City maintains two different types of proprietary funds consisting of the *enterprise funds* and the *internal service funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the City's Water, Wastewater and Airport operations. Internal Service Funds are an accounting device used to accumulate the allocated costs internally among the City's various functions (departments). The City uses an internal service fund to allocate costs associated with administrative services, public works staff, buildings, and fleet services. These costs are considered to be indirect overhead costs that cannot be directly associated with an individual function. Therefore, these costs are allocated to other functions in a systematic method. Because these services predominantly benefit governmental activities rather than business-type functions, they are included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Airport operations. The Internal Service fund is shown as a separate fund in the proprietary fund financial statement.

The financial statements also include notes that provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and the accompanying notes, additional pertinent information for the reader, referred to as *Required Supplementary Information* (RSI). The RSI can be found in this report following the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position: Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) for the City's governmental and business-type activities. The City's net position is made up of three components: invested in capital assets, restricted net position, and unrestricted net position. Restricted net position is subject to constraints that are either externally imposed by outside agencies, for example banks or grant agencies, or imposed by law through constitutional provisions or enabling legislation. The capital assets reflected within Table 1 are stated net of accumulated depreciation. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Madras, combined net position for fiscal year ended June 30, 2016 totaled \$46.1 million, a decrease of \$.8 million from June 30, 2015.

Table 1
STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 4,424,072	\$ 4,614,468	\$ 3,449,831	\$ 3,059,412	\$ 7,873,903	\$ 7,673,880
Capital assets	23,325,010	23,655,151	38,860,568	38,558,409	62,185,578	62,213,560
Total Assets	27,749,082	28,269,619	42,310,399	41,617,821	70,059,481	69,887,440
Deferred Outflows	298,671	177,320	31,412	19,702	330,083	197,022
Liabilities:						
Current liabilities	1,764,147	1,927,113	463,070	433,597	2,227,217	2,360,710
Non-current liabilities	9,127,798	7,492,572	12,052,076	11,915,620	21,179,874	19,408,192
Total Liabilities	10,891,945	9,419,685	12,515,146	12,349,217	23,407,091	21,768,902
Deferred Inflows	720,159	1,149,777	185,985	218,801	906,144	1,368,578
Net Position:						
Invested in capital assets, net of related debt	16,149,918	18,713,685	26,976,582	26,582,823	43,126,500	45,296,508
Restricted	3,300,764	3,244,049	330,978	282,896	3,631,742	3,526,945
Unrestricted	(3,015,033)	(4,080,257)	2,333,120	2,203,786	(681,913)	(1,876,471)
Total Net Position	\$ 16,435,649	\$ 17,877,477	\$ 29,640,680	\$ 29,069,505	\$ 46,076,329	\$ 46,946,982

The largest component of the City's \$46.1 million net position is net investments in capital assets (*e.g., land, buildings, improvements, equipment, infrastructure and construction in progress*). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is calculated by reducing the carrying value of restricted assets by amounts repayable from those assets, excluding capital-related debt. The restricted net position represents resources subject to restrictions imposed either by external creditors or imposed by law through constitutional provisions or enabling legislation.

Change in Net Position

Table 2
CHANGE IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue:						
Program Revenues:						
Charges for services	\$ 327,218	\$ 311,335	\$ 4,138,473	\$ 3,705,283	\$ 4,465,691	\$ 4,016,618
Operating grants and contributions	801,841	1,009,274	-	-	801,841	1,009,274
Capital grants and contributions	420,678	315,145	746,355	2,636,927	1,167,033	2,952,072
General Revenues:					-	-
Property taxes	1,550,542	1,475,715	-	-	1,550,542	1,475,715
Franchise and public services tax	1,216,134	1,194,747	-	-	1,216,134	1,194,747
Investment earnings and other	88,222	122,985	365,665	238,970	453,887	361,955
Transfers	(10,044)	(410,266)	10,044	410,266	-	-
Total Revenues	4,394,591	4,018,935	5,260,537	6,991,446	9,655,128	11,010,381
Expenses:						
General services	359,787	320,708	-	-	359,787	320,708
Parks	383,539	228,143	-	-	383,539	228,143
Community development	931,084	639,922	-	-	931,084	639,922
Public safety	2,621,157	1,073,056	-	-	2,621,157	1,073,056
Highway and streets	1,268,394	865,790	-	-	1,268,394	865,790
Interest on long-term obligations	272,461	281,568	-	-	272,461	281,568
Enterprise operations	-	-	4,689,361	4,417,257	4,689,361	4,417,257
Loss on disposal of capital assets	-	4,384	-	-	-	4,384
Total Expenses	5,836,422	3,413,571	4,689,361	4,417,257	10,525,783	7,830,828
Change in Net Position	(1,441,831)	605,364	571,176	2,574,189	(870,655)	3,179,553
Net position - beginning of year	17,877,477	18,316,806	29,069,505	26,529,658	46,946,982	44,846,464
Cumulative effect of accounting principle change	-	(1,044,693)	-	(116,076)	-	(1,160,769)
Prior period adjustment	-	-	-	81,734	-	81,734
Net position - end of year	\$ 16,435,646	\$ 17,877,477	\$ 29,640,681	\$ 29,069,505	\$ 46,076,327	\$ 46,946,982

Governmental Activities:

Governmental activities represent 36% of the City's total net position. The governmental activities net position decreased by \$1.4 million in 2016, primarily due to the impact of the City's proportionate share of the PERS overall system unfunded actuarial liability. Total revenues from governmental activities for fiscal year 2016 were \$311,046 more than prior year.

Business-Type Activities:

Business-type activities represent 64% of the City's total net position. These business-type activities consist of the Water, Wastewater and Airport operations and capital projects. In fiscal year end 2016, net position increased by \$0.57 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balance spending recourses. Such information is useful in assessing the City's financing requirements. In particular, the unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Table 3 shows the governmental funds balances for the two fiscal years ending June 30, 2016 and June 30, 2015. During fiscal year end 2016, all five City funds were classified as major governmental funds. As of fiscal year ended 2015, the City's governmental funds reported a combined ending fund balance of \$2.8 million. For the current fiscal year, the ending fund balance for the General Fund remained fairly flat, ending at \$2.8 million.

Table 3
SUMMARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

Fiscal Year 2015-2016	General Fund	Special Revenue Fund	Madras Redevelopment Commission	Debt Service Fund	Capital Project Fund	Total
Total revenues	\$ 2,429,266	\$ 1,115,452	\$ 450,704	\$ 182,708	\$ 271,633	\$ 4,449,764
Total expenditures	2,423,848	1,328,422	350,451	181,350	1,033,513	5,317,584
Revenues over/(under) expenditures	5,418	(212,970)	100,253	1,358	(761,880)	(867,820)
Total other financing sources/(uses)	-	117,990	(110,715)	39,669	803,338	850,282
Net change in fund balance	5,418	(94,980)	(10,462)	41,027	41,458	(17,539)
Fund balance - beginning	1,090,409	742,231	(1,610,756)	2,564,036	46,208	2,832,128
Fund balance (deficit) - ending	\$ 1,095,827	\$ 647,251	\$ (1,621,218)	\$ 2,605,063	\$ 87,666	\$ 2,814,589

Fiscal Year 2014-2015	General Fund	Transportation Operations Fund	Madras Redevelopment Commission	Debt Service Fund	Other Governmental Funds	Total
Total revenues	\$ 2,195,733	\$ 913,616	\$ 403,564	\$ 180,681	\$ 461,739	\$ 4,155,333
Total expenditures	2,003,519	728,954	241,270	177,450	547,228	3,698,421
Revenues over/(under) expenditures	192,214	184,662	162,294	3,231	(85,489)	456,912
Total other financing sources/(uses)	(27,796)	(50,000)	(82,500)	(80,906)	279,500	38,298
Net change in fund balance	164,418	134,662	79,794	(77,675)	194,011	495,210
Fund balance - beginning	822,180	154,309	(1,690,550)	2,372,221	678,760	2,336,920
Fund balance (deficit) - ending	\$ 986,598	\$ 288,971	\$ (1,610,756)	\$ 2,294,546	\$ 872,771	\$ 2,832,130

GENERAL FUND BUDGET HIGHLIGHTS

The City adopted the operating budget for the fiscal year 2015-16 budget on June 9, 2015 in the amount of \$13,290,277, excluding reserve and unappropriated ending fund balance. The General Fund budgetary comparison can be found on page 62.

CAPITAL ASSETS

The capital assets of the City are those assets that are used in the performance of the City's functions including infrastructures assets. Capital assets include buildings, equipment, land, park facilities, roads, and construction in progress. Both land owned by the City for its own use and acquired land designated for resale are considered non-depreciable assets based on generally accepted accounting principles.

Governmental activities capital assets decreased \$330,142 (1.4%). Business-type activities capital asset increased by \$302,155 (0.78%). Additional information about the City's capital assets is located on pages 40-42.

Table 4
CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2014
Non-depreciable assets:						
Land	\$ 3,038,867	\$ 3,038,867	\$ 1,727,177	\$ 1,727,177	\$ 4,766,044	\$ 4,766,044
Construction in progress	89,556	46,913	506,677	2,591,840	596,233	2,638,753
Total non-depreciable assets	3,128,423	3,085,780	2,233,854	4,319,017	5,362,277	7,404,797
Capital assets being depreciated:						
Land improvements	2,483,506	2,582,981	127,063	117,677	2,610,569	2,700,658
Building and improvements	6,864,083	7,061,671	4,382,764	4,461,808	11,246,847	11,523,479
Equipment	503,970	463,399	321,809	144,687	825,779	608,086
Infrastructure	10,345,028	10,461,321	31,795,075	29,515,221	42,140,103	39,976,542
Total depreciable assets, net	20,196,587	20,569,372	36,626,711	34,239,393	56,823,298	54,808,765
Total capital assets	\$ 23,325,010	\$ 23,655,152	\$ 38,860,565	\$ 38,558,410	\$ 62,185,575	\$ 62,213,562

DEBT ADMINISTRATION

Table 5 shows the City's combined total outstanding debt for fiscal years ending June 30, 2016 and 2015. For more information regarding the City's outstanding debt please refer to the Note 6 to the Basic Financial Statements located on pages 42-48 of this report.

Table 5
OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2014
Bonds Payable	\$ 6,623,502	\$ 6,042,353	\$ 11,658,670	\$ 10,583,796	\$ 18,282,172	\$ 16,626,149
Loans and Notes	555,985	1,289,114	225,317	1,391,792	781,302	2,680,906
OPEB Liability	340,124	298,775	37,792	31,396	377,916	330,171
Total outstanding debt	\$ 7,519,611	\$ 7,630,242	\$ 11,921,779	\$ 12,006,984	\$ 19,441,390	\$ 19,637,226

On September 16, 2015, the City refunded a large portion of debt held in the Wastewater, Water, Airport and Capital Project Funds through the issuance of a \$2,070,000 Full Faith & Credit refunding bond issuance. The refunding is expected to save the City \$268,053 over the life of the bonds. The City also drew an additional \$150,000 on the existing line of credit for the Madras Redevelopment Commission during the fiscal year. Total outstanding debt for Business-type Activities decreased approximately \$85,000 from the prior year. Total outstanding debt for Governmental Activities decreased approximately \$110,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors considered for the next fiscal year (2016-17) include:

- Strategic economic development continues to be a primary goal for the City. Economic development planning efforts include the expansion/remodel of the St. Charles Hospital, Daimler expansion at the Madras airport, and the new Jefferson County Court House that initiated construction efforts in the 2015-16 fiscal year.
- Airport/Industrial leases continue to be developed and negotiated to accommodate business expansion which will ultimately increase the airport/industrial fund revenues. Development of an enterprise zone assists with this effort that is planning to be implemented in 2015-16 fiscal year.
- The City implemented a 4.5% increase in water user rates and a 3.5% increase in sewer user rates effective July 1, 2016. These increases are consistent with the strategic plan an external financial consultant completed as part of the requirements to meet the debt obligations for the infrastructure system, and become financially sustainable in the water and wastewater operational funds.
- The Jefferson County tax assessor provided guidance of an upward trend of property tax values. The budget will take a conservative approach on forecasting property taxes as the assessed values have not resulted in material increases in years past.
- Debt obligations are the largest liability for the City and ways to ensure sustainability of revenue to meet obligations is a primary factor when developing the budget.
- Personnel costs continue to be a budget priority to retain qualified staff and maintain competitive benefits. The City Council Governance Policy states that the City Administrator will prevent “establishing compensation that deviates materially from the geographic or professional market for the skills employed and/or that is outside of the approved budget.” It also states that the City will conduct a bi-annual wage survey to ensure market competitiveness, incentivize the recruitment process, and retain quality employees. Effective July 1, 2016 employee wages were adjusted to market standards and resulted in a 0.4% COLA and merit adjustments made according to contract and performance basis for non-represented employees.
- Due to the Oregon Supreme Court rejection of the pension reform, it is anticipated that the unfunded liability in Oregon’s Public Employees Retirement System (“PERS”) will increase substantially and contributions from public employers will increase approximately 20% starting in July 2017. Staff is aware of this and will be making every effort to ensure ample funds are designated to meet the required pension rates.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Madras's finances for all those with an interest in the government's finances. Madras Redevelopment Commission has issued a separate report, which is available to those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be address to the City of Madras, Attention: Finance Director, 125 S.E. "E" Street, Madras, Oregon 97741, (541) 475-2344, or visit the City's website at www.ci.madras.or.us.

BASIC FINANCIAL STATEMENTS

CITY OF MADRAS
(Jefferson County, Oregon)

STATEMENT OF NET POSITION

JUNE 30, 2016 and summarized information for 2015

	Primary Government		Total	2015
	Governmental Activities	Business-Type Activities		
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,019,603	\$ 883,078	\$ 3,902,681	\$ 3,247,978
Receivables				
Accounts, net	273,040	619,112	892,152	813,817
Property taxes	98,105	-	98,105	101,845
Interfund receivable	-	1,480,974	1,480,974	1,414,514
Prepaid expenses	5,542	115	5,657	14,367
Inventories	83,798	93,790	177,588	126,255
Cash held with fiscal agents	21,557	65,419	86,976	-
Restricted cash and investments	510,021	330,978	840,999	885,072
Total Current Assets	<u>4,011,666</u>	<u>3,473,466</u>	<u>7,485,132</u>	<u>6,603,848</u>
Noncurrent assets				
Redevelopment properties	329,698	-	329,698	329,698
Notes receivable	82,705	-	82,705	134,193
Capital assets				
Land	3,038,867	1,727,177	4,766,044	4,766,044
Construction in progress	89,556	506,677	596,233	2,638,752
Depreciable assets, net	20,196,587	36,626,714	56,823,301	54,808,764
Net pension asset	-	-	-	606,140
Total Noncurrent Assets	<u>23,737,413</u>	<u>38,860,568</u>	<u>62,597,981</u>	<u>63,283,591</u>
Total Assets	<u>27,749,079</u>	<u>42,334,034</u>	<u>70,083,113</u>	<u>69,887,439</u>
DEFERRED OUTFLOW				
Difference between expected and actual experience	80,320	3,982	84,302	-
Change in proportionate share	7,668	702	8,370	-
Pension contributions subsequent to measurement date	210,683	26,728	237,411	197,022
Total Deferred Outflow	<u>298,671</u>	<u>31,412</u>	<u>330,083</u>	<u>197,022</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	200,089	361,569	561,658	209,952
Bank overdraft	-	23,633	23,633	-
Payroll liabilities	48,251	-	48,251	48,063
Deposits	11,200	63,401	74,601	66,784
Accrued interest payable	23,633	38,099	61,732	116,662
Retainage payable	-	-	-	103,106
Interfund payable	1,480,974	-	1,480,974	1,414,514
Long-term debt, due within one year	571,247	144,033	715,280	401,630
Total Current Liabilities	<u>2,335,394</u>	<u>630,736</u>	<u>2,966,130</u>	<u>2,360,711</u>
Noncurrent liabilities				
Accrued compensated absences	175,175	-	175,175	172,597
Other post-employment benefits	340,124	37,792	377,916	330,171
Net pension liability	1,433,012	130,298	1,563,310	-
Long-term debt, due after one year	6,608,240	11,739,953	18,348,193	18,905,424
Total Noncurrent Liabilities	<u>8,556,551</u>	<u>11,908,043</u>	<u>20,464,594</u>	<u>19,408,192</u>
Total Liabilities	<u>10,891,945</u>	<u>12,538,779</u>	<u>23,430,724</u>	<u>21,768,903</u>
DEFERRED INFLOWS				
Difference between projected and actual investment earnings - pension related	284,833	42,872	327,705	1,169,605
Changes in employer proportionate share of contributions - pension related	102,670	10,266	112,936	27,275
Unamortized bond premium	47,342	130,832	178,174	79,297
Unearned revenue	285,314	2,015	287,329	92,401
Total Deferred Inflows	<u>720,159</u>	<u>185,985</u>	<u>906,144</u>	<u>1,368,578</u>
Net Position				
Invested in capital assets net of related debt	16,145,523	26,976,582	43,122,105	45,296,508
Restricted for				
Highways and streets	275,553	-	275,553	252,907
Improvement fees	332,480	-	332,480	349,418
System development	87,668	330,978	418,646	344,910
Debt service and reserves	2,605,063	-	2,605,063	2,579,710
Unrestricted	(3,010,641)	2,333,120	(677,521)	(1,876,471)
Total Net Position	<u>\$ 16,435,646</u>	<u>\$ 29,640,680</u>	<u>\$ 46,076,326</u>	<u>\$ 46,946,982</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
(Jefferson County, Oregon)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016 and summarized information for 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 359,787	\$ 127,947	\$ 86,910	\$ -
Parks	383,539	36,401	-	14,129
Community development	931,084	138,787	-	111,162
Public safety	2,621,157	-	209,673	-
Highways and streets	1,268,394	24,083	505,258	295,387
Interest expense on long-term debt	272,461	-	-	-
Total Governmental Activities	<u>5,836,422</u>	<u>327,218</u>	<u>801,841</u>	<u>420,678</u>
Business-Type Activities				
Water	554,712	551,849	-	-
Wastewater	3,318,467	3,002,267	-	83,020
Airport	816,182	584,358	-	663,335
Total Business-Type Activities	<u>4,689,361</u>	<u>4,138,473</u>	<u>-</u>	<u>746,355</u>
Total Primary Government	<u>\$ 10,525,783</u>	<u>\$ 4,465,691</u>	<u>\$ 801,841</u>	<u>\$ 1,167,033</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Madras Redevelopment Commission

Franchise and Public Services Taxes

Interest and Investment Earnings

General Purpose Grants

Miscellaneous

Transfers

Total General revenues, Special Items and Transfers

Change in Net Position

Cumulative Effect of an Accounting Principle Change

Prior Period Adjustment

Net Position - Beginning

Net Position - Ending

Net (Expense) Revenue and
Changes in Net Assets
Primary Government

Governmental Activities	Business-Type Activities	Total	2015
\$ (144,930)	\$ -	\$ (144,930)	\$ 163,947
(333,009)	-	(333,009)	(189,924)
(681,135)	-	(681,135)	(416,570)
(2,411,484)	-	(2,411,484)	(993,680)
(443,666)	-	(443,666)	(55,638)
(272,461)	-	(272,461)	(281,568)
-	-	-	(4,384)
(4,286,685)	-	(4,286,685)	(1,777,817)
-	(2,863)	(2,863)	112,754
-	(233,181)	(233,181)	(198,893)
-	431,511	431,511	2,011,093
-	195,467	195,467	1,924,955
(4,286,685)	195,467	(4,091,218)	147,138
1,191,658	-	1,191,658	1,143,413
1,808	-	1,808	3,335
357,076	-	357,076	328,967
1,216,134	-	1,216,134	1,194,747
25,160	4,186	29,346	28,307
	120,500	120,500	-
63,062	240,978	304,040	333,648
(10,044)	10,044	-	-
2,844,854	375,709	3,220,563	3,032,417
(1,441,831)	571,176	(870,655)	3,179,555
-	-	-	(1,160,769)
-	-	-	81,734
17,877,477	29,069,505	46,946,982	44,846,464
\$ 16,435,646	\$ 29,640,681	\$ 46,076,327	\$ 46,946,982

The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
(Jefferson County, Oregon)

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016 and summarized information for 2015

	General Fund	Special Revenue Fund	Madras Redevelopment Commission	Debt Service Fund	Capital Project Fund	Total	
						2016	2015
ASSETS:							
Cash and cash equivalents	\$ 992,645	\$ 479,797	\$ 360,405	\$ 314,613	\$ (0)	\$ 2,147,459	\$ 2,330,677
Restricted cash and cash equivalents		332,480			80,410	412,890	-
Receivables:							
Property taxes	75,569	-	22,536	-	-	98,105	101,845
Accounts	148,191	101,371	-	-	9,825	259,387	238,130
Notes	-	-	82,705	-	-	82,705	134,193
Inventory	6,174	42,675	-	-	-	48,849	42,744
Due from other funds	-	-	-	2,290,000	-	2,290,000	2,290,000
Due from business-type funds	-	-	-	-	-	-	-
Cash held with fiscal agents	-	-	-	-	21,557	21,557	-
Prepaid expenses	2,600	-	-	450	-	3,050	8,991
Redevelopment properties	-	-	329,698	-	-	329,698	329,698
Total Assets	\$ 1,225,179	\$ 956,322	\$ 795,344	\$ 2,605,063	\$ 111,792	\$ 5,693,700	\$ 5,476,277
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts payable and accrued liabilities	\$ 31,044	\$ 44,945	\$ 25,419	\$ -	\$ 14,298	\$ 115,706	\$ 51,674
Payroll liabilities	18,110	2,327	-	-	-	20,437	23,736
Deposits	-	11,000	-	-	-	11,000	5,000
Due to other funds	-	-	2,290,000	-	-	2,290,000	2,290,000
Total Liabilities	49,154	58,272	2,315,419	-	14,298	2,437,143	2,370,409
Deferred outflow							
Unavailable property taxes	63,501	-	19,156	-	-	82,657	94,903
Unearned revenue	16,698	250,800	81,987	-	9,826	359,311	178,834
Total Deferred Outflow	80,199	250,800	101,143	-	9,826	441,968	273,737
Fund Balances:							
Nonspendable	8,774	42,675	-	450	-	51,899	51,734
Restricted	-	-	-	2,604,613	-	2,604,613	3,344,049
Highways and streets	-	232,878	-	-	-	232,878	-
Improvement fees	-	332,480	-	-	-	332,480	-
System development	-	-	-	-	87,668	87,668	-
Committed to tourism and economic development	97,289	-	-	-	-	97,289	103,812
Assigned	-	39,217	-	-	-	39,217	266,464
Parks	99,851	-	-	-	-	99,851	-
Industrial Site	63,356	-	-	-	-	63,356	-
Unassigned	826,557	-	(1,621,218)	-	-	(794,662)	(933,929)
Total Fund Balances	1,095,827	647,250	(1,621,218)	2,605,063	87,668	2,814,589	2,832,130
Total Liabilities, Deferred Outflow and Fund Balances	\$ 1,225,179	\$ 956,322	\$ 795,344	\$ 2,605,063	\$ 111,792	\$ 5,693,700	\$ 5,476,277

CITY OF MADRAS
(Jefferson County, Oregon)

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION**

JUNE 30, 2016

Total Fund Balances		\$ 2,814,589
<p>Capital assets are not financial resources and thus are not reported in governmental funds, but are reported in the Statement of Net Position at their net depreciable value.</p>		
Capital assets	20,081,731	
Less accumulated depreciation	<u>(4,544,888)</u>	15,536,843
<p>Notes receivable are not available to pay for current period expenditures and, therefore are deferred in the fund statements.</p>		
		81,987
<p>A portion of the City's property taxes are collected after year-end but are not available soon enough to pay for the current years' operations, and therefore are not reported as revenue in the governmental funds.</p>		
Unearned property tax		82,658
<p>All liabilities are reported in the Statement of Net Position whereas in governmental funds, liabilities not due and payable in the current period are not reported.</p>		
Accrued interest payable	(7,132)	
Other post-employment benefits liability	(151,166)	
Accrued compensated absences	(62,867)	
Long-term debt	(3,507,315)	
Unamortized bond premium	<u>(47,342)</u>	(3,775,822)
<p>Long term pension related assets, liabilities, deferred outflows and deferred inflows are reported in the Statement of Net Position, whereas in governmental funds, pension related balances not due and payable in the current period are not reported.</p>		
Pension contributions subsequent to measurement date	94,607	
Difference between expected and actual experience	32,106	
Change in proportionate share	3,058	
Net pension liability	(588,442)	
Difference between projected and actual investment earnings	(145,150)	
Changes in employer proportionate share of contributions	<u>(43,963)</u>	(647,784)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are classified as governmental activities in the Statement of Net Position.</p>		
Current assets	1,020,370	
Capital assets	7,788,166	
Deferred outflows	168,900	
Current liabilities	(210,023)	
Bonds payable	(3,591,047)	
Other post-employment benefits	(188,958)	
Compensated absences	(112,308)	
Net pension liability	(844,570)	
Deferred inflows	(206,382)	
Interfund payable	<u>(1,480,974)</u>	<u>2,343,174</u>
Total Net Position		<u>\$ 16,435,646</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
(Jefferson County, Oregon)

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

JUNE 30, 2016 and summarized information for 2015

	General Fund	Special Revenue Fund	Madras Redevelopment Commission	Debt Service Fund	Capital Project Fund	Total	
						2016	2015
REVENUES:							
Property taxes	\$ 1,203,904	\$ -	\$ 357,076	\$ 1,808	\$ -	\$ 1,562,787	\$ 1,475,224
Other taxes	388,502	-	-	-	-	388,502	376,595
Franchise fees	413,809	413,822	-	-	-	827,632	818,152
Assessment	-	1,573	89,365	-	-	90,938	184
Licenses and fees	1,110	81,412	-	-	-	82,522	92,236
Charges for services	40,171	51,457	-	-	-	91,628	92,692
Intergovernmental	331,045	544,151	-	180,900	-	1,056,096	1,002,056
Fines and forfeitures	41,048	-	-	-	-	41,048	42,987
System development charges	-	-	-	-	226,524	226,524	135,147
Rental income	6,929	-	-	-	-	6,929	6,711
Interest on investments	118	1,606	4,011	-	985	6,721	15,585
Miscellaneous	2,630	921	253	-	25	3,829	97,764
Total Revenues	2,429,266	1,094,942	450,704	182,708	227,534	4,385,154	4,155,333
EXPENDITURES:							
Current:							
General government	83,488	-	-	-	-	83,488	65,528
Parks	220,354	-	-	-	-	220,354	193,607
Community development	135,883	324,921	167,084	-	-	627,888	436,314
Public safety	1,933,321	-	-	-	-	1,933,321	1,702,871
Highways and streets	50,803	777,376	-	-	19,405	847,584	717,155
Capital outlay	-	226,125	-	-	15,239	241,364	53,312
Debt service	-	-	183,367	181,350	998,869	1,363,586	529,634
Total Expenditures	2,423,848	1,328,422	350,451	181,350	1,033,513	5,317,585	3,698,421
Excess of Revenues Over, (Under) Expenditures	5,418	(233,481)	100,253	1,358	(805,979)	(932,431)	456,912
Other Financing Sources, (Uses)							
Special payments - grants and loans	-	-	(260,715)	-	-	(260,715)	(182,500)
Proceeds from line of credit	-	-	150,000	-	-	150,000	100,000
Refunding bond proceeds	-	-	-	-	805,230	805,230	-
Refunding bond premium	-	-	-	-	49,709	49,709	-
Transfers in	-	159,010	-	42,984	44,100	246,094	566,441
Transfers out	-	(20,510)	-	(3,315)	(51,600)	(75,425)	(445,643)
Total Other Financing Sources (Uses)	-	138,500	(110,715)	39,669	847,439	914,892	38,298
Net Change in Fund Balance	5,418	(94,981)	(10,462)	41,027	41,460	(17,539)	495,210
Fund Balance - Beginning of Year	1,090,409	742,231	(1,610,756)	2,564,036	46,208	2,832,128	2,336,920
Fund Balance - End of Year	<u>\$ 1,095,827</u>	<u>\$ 647,250</u>	<u>\$ (1,621,218)</u>	<u>\$ 2,605,063</u>	<u>\$ 87,668</u>	<u>\$ 2,814,589</u>	<u>\$ 2,832,130</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
(Jefferson County, Oregon)

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - TO STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

The change in net position reported in the Statement of Activities is different because:

Net changes in fund balances - total governmental funds		\$	(17,539)
<p>Capital asset additions are reported as capital outlay expenditures in governmental funds. However, the Statement of Activities allocated the cost of these assets over their estimated useful lives as depreciation expense.</p>			
Capital asset additions	241,033		
Depreciation expense	<u>(457,961)</u>		(216,928)
<p>In the Debt Service Fund, amounts received from the Madras Redevelopment Commission are reported as grant revenue. In the government-wide statements, this duplication of debt service payments is eliminated.</p>			
			(180,900)
<p>Assessment and other loan repayments collected are reported as revenue in the governmental funds when they are collected. In the Statement of Activities, revenues are recognized when the loan receivables are recorded and principle repayments collected reduce the loan receivable balances.</p>			
			(12,245)
<p>Property taxes and other revenues that do not meet the measurable and available criteria do not provide current financial resources and are recorded as deferred revenue in the governmental funds. In the Statement of Activities, these revenues are recognized as revenue when they are earned (or levied in the case of property taxes).</p>			
			(51,506)
<p>Net pension assets that do not provide current financial resources are not recorded in the government funds. The the Statement of Activities, these revenues are recognized as revenue as it is earned, as estimated by actuarial methodology.</p>			
			(490,297)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.</p>			
Debt principal repaid	1,363,586		
Amortization of bond premium	2,367		
Interest expense paid from bond proceeds	(155,659)		
Bond proceeds	(854,939)		
Line of credit proceeds	(150,000)		
Change in compensated absences	(364)		
Change in other post employment benefits	(19,956)		
Change in accrued interest payable	<u>20,125</u>		205,160
<p>Internal service funds are used by management to charge the costs of central services, public works administration, building maintenance and improvement and fleet maintenance and acquisition to individual funds. The net revenues (expenses) of the internal service funds are allocated between governmental and business-type activities.</p>			
			<u>(677,576)</u>
Changes in net position of governmental activities		\$	<u>(1,441,831)</u>

CITY OF MADRAS
(Jefferson County, Oregon)

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2016 and summarized information for 2015

	Business-Type Activities - Enterprise Funds				Governmental	Total 2015	
	Wastewater			Total	Internal	Business-Type	Governmental
	Water Fund	Fund	Airport Fund		Service Fund	Activities Total	Activities Total
ASSETS:							
Current Assets:							
Cash and cash equivalents	\$ 222,294	\$ 660,783	\$ -	\$ 883,078	\$ 872,144	\$ 770,850	\$ 852,976
Restricted cash and equivalents	57,828	273,150	-	330,978	97,131	178,547	-
Receivables:							
Accounts, net	53,488	291,869	273,754	619,112	13,654	565,528	10,159
Cash held with fiscal agents	3,325	33,074	29,020	65,419	-	-	-
Prepaid expense	115	-	-	115	2,492	621	4,755
Inventories	26,066	24,300	43,424	93,790	34,949	68,737	14,774
Total Current Assets	363,116	1,283,176	346,199	1,992,492	1,020,370	1,584,283	882,664
Noncurrent Assets:							
Land	6,048	1,608,784	112,345	1,727,177	2,270,000	1,727,177	2,270,000
Construction in progress	-	9,914	496,763	506,677	40,754	2,591,839	34,763
Depreciable assets	1,503,310	32,411,392	13,913,797	47,828,499	6,757,357	44,615,280	6,602,729
Accumulated depreciation	(825,377)	(7,850,502)	(2,525,906)	(11,201,785)	(1,279,945)	(10,375,886)	(1,006,113)
Net pension asset	-	-	-	-	-	60,614	303,070
Total Noncurrent Assets	683,981	26,179,588	11,996,999	38,860,568	7,788,166	38,619,024	8,204,449
DEFERRED OUTFLOWS:							
Difference between expected and actual experience - pension	1,991	1,991	-	3,982	45,049	-	-
Changes in proportionate share - pension	351	351	-	702	4,223	-	-
Pension contributions subsequent to measurement date	13,364	13,364	-	26,728	119,628	19,702	98,511
Total Deferred Outflows	15,706	15,706	-	31,412	168,900	19,702	98,511
LIABILITIES:							
Current Liabilities:							
Accounts payable	\$ 22,206	\$ 35,780	\$ 303,583	\$ 361,569	\$ 84,383	\$ 105,677	\$ 52,601
Bank overdrafts	-	-	23,633	23,633	-	-	-
Payroll liabilities	-	-	-	-	27,814	-	24,327
Accrued interest payable	-	36,362	1,737	38,099	16,501	72,668	16,737
Retainage payable	-	-	-	-	-	103,106	-
Deposits	34,953	28,448	-	63,401	200	60,784	1,000
Current portion of long-term debt	5,700	84,829	53,504	144,033	81,125	91,363	80,182
Total Current Liabilities	62,859	185,419	382,457	630,736	210,023	433,598	174,847
Noncurrent Liabilities:							
Other post employment benefits liability	18,896	18,896	-	37,792	188,958	31,396	167,565
Compensated absences	-	-	-	-	112,308	-	110,094
Notes and contracts payable	-	167,412	57,905	225,317	-	1,345,965	-
Bonds payable, due after one year	112,500	10,420,799	981,337	11,514,636	3,591,047	10,538,259	3,672,171
Net pension liability	65,149	65,149	-	130,298	844,570	-	-
Total Noncurrent Liabilities	196,545	10,672,256	1,039,242	11,908,043	4,736,883	11,915,620	3,949,830
DEFERRED INFLOWS							
Difference between projected and actual investment earnings - pension related	21,436	21,436	-	42,872	139,437	116,958	584,803
Changes in employer proportionate share of contributions - pension related	5,133	5,133	-	10,266	58,953	2,728	13,638
Unamortized bond premium	5,595	78,193	47,044	130,832	-	79,297	-
Unearned revenue	-	1,115	900	2,015	7,992	19,818	27,242
Total Deferred Inflows	32,164	105,877	47,944	185,985	206,382	218,801	625,683
Net Position:							
Invested in capital assets, net of related debt	565,781	15,506,548	10,904,253	26,976,582	4,115,994	26,582,823	4,149,026
Restricted for system development	57,828	273,150	-	330,978	-	266,772	-
Restricted for debt services	-	-	-	-	-	16,124	-
Unrestricted	147,624	735,220	(30,699)	852,146	(291,847)	789,272	286,237
Total Net Position	\$ 771,233	\$ 16,514,918	\$ 10,873,554	\$ 28,159,706	\$ 3,824,147	\$ 27,654,991	\$ 4,435,263

The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
(Jefferson County, Oregon)

**RECONCILIATION OF PROPRIETARY FUNDS STATEMENT OF NET POSITION
TO STATEMENT OF NET POSITION**

JUNE 30, 2016

Net position - total enterprise funds	\$ 28,159,706
---------------------------------------	---------------

Amounts reported for business-type activities in the statement of net assets
are different because:

Internal service funds are used by management to charge the costs of certain
activities to individual funds. The assets and liabilities of the internal service funds
are classified as governmental activities, but the business-type activities made
payments.

Internal loans receivable	<u>1,480,974</u>
---------------------------	------------------

Net position of business - type activities	<u><u>\$ 29,640,680</u></u>
--	-----------------------------

CITY OF MADRAS
(Jefferson County, Oregon)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016 and summarized information for 2015

	Business-Type Activities - Enterprise Funds				Governmental	Total 2015	
	Water Fund	Wastewater Fund	Airport Fund	Total	Internal Service Fund	Business-Type Activities Total	Governmental Activities Total
OPERATING REVENUES:							
Charges for services	\$ 542,545	\$ 2,954,053	\$ 575,416	\$ 4,072,013	\$ 3,298,531	\$ 3,705,283	\$ 3,063,395
Licenses and fees	-	-	-	-	69,922	-	42,583
Rental income	-	2,351	230,155	232,506	-	228,900	250
Miscellaneous	-	-	8,472	8,472	12,872	-	-
Total Operating Revenues	542,545	2,956,404	814,043	4,312,992	3,381,324	3,934,183	3,106,229
OPERATING EXPENSES:							
Personal services	276,160	1,312,878	-	1,589,038	2,330,579	1,347,367	1,119,889
Materials and services	253,577	1,007,795	515,278	1,776,650	1,163,160	1,742,663	1,037,846
Bad debt expense	-	9,915	-	9,915	-	-	-
Depreciation	20,686	560,947	261,017	842,649	273,832	821,512	213,457
Total Operating Expenses	550,423	2,891,534	776,295	4,218,252	3,767,571	3,911,542	2,371,192
Operating Income (Loss)	(7,878)	64,870	37,748	94,740	(386,247)	22,641	735,037
Nonoperating Revenues (Expenses):							
Interest on investments	322	3,799	65	4,186	18,440	10,070	2,652
Interest expense	(4,289)	(426,933)	(39,887)	(471,109)	(139,296)	(496,974)	(142,067)
Grant revenue	-	120,500	-	120,500	-	-	-
Loss on disposal of capital assets	-	-	-	-	-	(94,937)	-
Total Non-Operating Revenues (Expenses)	(3,967)	(302,634)	(39,822)	(346,422)	(120,856)	(581,841)	(139,414)
Income (Loss) Before Contributions and Transfers	(11,845)	(237,764)	(2,074)	(251,683)	(507,103)	(559,200)	595,622
Capital Contributions							
Intergovernmental grants	-	-	663,335	663,335	76,700	2,207,837	86,362
System development charges	-	78,695	-	78,695	-	82,211	-
Insurance proceeds	-	-	-	-	-	345,635	-
Assessments	-	4,325	-	4,325	-	1,243	-
Total Capital Contributions	-	83,020	663,335	746,355	76,700	2,636,926	86,362
Transfers							
Transfers in	-	123,315	48,541	171,856	-	452,257	23,662
Transfers out	-	(153,271)	(8,541)	(161,812)	(180,713)	(41,991)	(554,375)
Total Transfers	-	(29,956)	40,000	10,044	(180,713)	410,266	(530,713)
Change in Net Position	(11,845)	(184,701)	701,261	504,716	(611,116)	2,487,992	151,271
Prior Period Adjustment	-	-	-	-	-	81,734	-
Cumulative Change in Accounting Principle	-	-	-	-	-	(116,076)	(580,385)
Beginning Net Position	783,078	16,699,619	10,172,293	27,654,990	4,435,263	25,201,340	4,864,377
Ending Net Position	<u>\$ 771,233</u>	<u>\$ 16,514,918</u>	<u>\$ 10,873,554</u>	<u>\$ 28,159,706</u>	<u>\$ 3,824,147</u>	<u>\$ 27,654,991</u>	<u>\$ 4,435,263</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
(Jefferson County, Oregon)

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS - TO STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

The change in net position reported in the Statement of Activities is different because:

Net changes in fund balances - total enterprise funds	\$ 504,716
Internal service funds are used by management to charge the costs of central services, public works administration, building maintenance and improvement and fleet maintenance and acquisition to individual funds. The net revenues (expenses) of the internal service funds are allocated between governmental and business-type activities.	<u>66,460</u>
Changes in net position of enterprise activities	<u>\$ 571,176</u>

CITY OF MADRAS
(Jefferson County, Oregon)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016 and summarized information for 2015

	Business-Type Activities - Enterprise Funds				Governmental	Total 2015	
	Water Fund	Wastewater Fund	Airport Fund	Total	Activities Internal Service Fund	Business-Type Activities Total	Governmental Activities Total
Cash Flows from Operating Activities:							
Receipts from customers and users	\$ 551,972	\$ 2,933,240	\$ 749,098	\$ 4,234,310	\$ 59,248	\$ 4,004,993	\$ 105,485
Receipts from interfund services provided	-	-	-	-	3,298,531	-	3,023,193
Payments to suppliers	(258,376)	(991,462)	(374,940)	(1,624,778)	(1,149,290)	(1,682,672)	(1,056,992)
Payments to employees	-	-	-	-	(1,626,285)	-	(1,457,293)
Payments for interfund services used	(216,635)	(1,253,352)	-	(1,469,987)	-	(1,527,529)	-
Net Cash Flows Provided by Operating Activities	76,961	688,426	374,158	1,139,545	582,204	794,792	614,393
Cash Flows from Non-capital Financing Activities							
Grant revenue	-	120,500	-	-	-	-	-
Transfers from other funds	-	123,315	48,541	171,856	-	452,257	-
Transfers to other funds	-	(153,271)	(8,541)	(161,812)	(180,713)	(41,991)	(530,713)
Net Cash Flows Provided by (Used in) Non-capital Financing Activities	-	90,544	40,000	10,044	(180,713)	410,266	(530,713)
Cash Flows from Capital and Related Financing Activities							
Proceeds from intergovernmental revenue	-	-	663,335	663,335	76,700	2,207,837	86,362
Proceeds from bond issue	124,200	53,199	1,087,371	1,264,770	-	-	-
Premium on bond issue	5,875	2,548	49,396	57,819	-	-	-
System development charges	-	78,695	-	78,695	-	82,211	-
Insurance proceeds	-	-	-	-	-	345,635	-
Assessments	-	4,325	-	4,325	-	1,243	-
Interfund loans	-	-	-	-	-	(109,666)	-
Interest revenue	322	3,799	65	4,186	18,440	10,070	2,652
Acquisition of capital assets	-	(35,626)	(1,109,182)	(1,144,808)	(160,619)	(2,784,621)	(129,063)
Principal paid on long-term obligations	(127,643)	(102,092)	(1,126,637)	(1,356,372)	(80,181)	(49,113)	(79,267)
Interest paid on long-term obligations	(7,434)	(428,552)	(69,692)	(505,678)	(139,532)	(496,938)	(142,260)
Amortization of bond premium	(280)	(3,652)	(2,352)	(6,284)	-	-	-
Cash held with fiscal agents	(3,325)	(33,074)	(29,020)	(65,419)	(97,131)	-	-
Restricted cash deposits	(7,705)	(160,850)	16,124	(152,431)	-	(178,547)	-
Net Cash Flows Used in Capital and Related Financing Activities	(15,990)	(621,280)	(520,592)	(1,157,862)	(382,323)	(971,888)	(261,576)
Net Increase (Decrease) in Cash and Cash Equivalents	60,971	157,690	(106,433)	112,227	19,168	233,170	(177,896)
Cash - Beginning of the Year	161,323	503,093	106,433	770,849	852,976	537,680	1,030,871
Cash - End of the Year	\$ 222,294	\$ 660,783	\$ (0)	\$ 883,076	\$ 872,144	\$ 770,850	\$ 852,976
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:							
Operating income (loss)	\$ (7,878)	\$ 64,870	\$ 37,748	\$ 94,740	\$ (386,247)	\$ 22,640	\$ 735,036
Cash flow reported in other activities:							
Depreciation expense	20,686	560,947	261,017	842,650	273,832	821,512	213,457
(Increase) Decrease in Assets and Deferred Outflows							
Receivables	8,103	(2,891)	(58,794)	(53,582)	(3,495)	60,378	21,451
Inventory and prepaid expenses	(10,589)	(5,656)	(8,302)	(24,547)	(17,912)	10,727	(18,031)
Net pension asset	30,307	30,307	-	60,614	303,070	(197,076)	(985,384)
Deferred outflows	(5,855)	(5,855)	(6,151)	(17,861)	(70,389)	684	3,418
Increase (Decrease) in Liabilities and Deferred Inflows							
Accounts payable and accrued expenses	5,790	21,989	125,007	152,786	35,269	(17,975)	3,572
Deposits	1,324	1,293	-	2,617	(800)	3,381	-
Bank overdraft	-	-	23,633	23,633	-	-	-
Compensated absences payable	-	-	-	-	2,214	-	27,685
Other postemployment benefits	3,198	3,198	-	6,396	21,393	6,894	25,846
Net pension liability	65,149	65,149	-	130,298	844,570	-	-
Deferred inflows	(33,274)	(44,926)	-	(78,200)	(419,301)	83,627	587,343
Net Cash Provided By Operating Activities	\$ 76,961	\$ 688,425	\$ 374,158	\$ 1,139,544	\$ 582,204	\$ 794,792	\$ 614,393

The notes to the basic financial statements are an integral part of this statement.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Madras, Oregon, have been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

ORGANIZATION

The City, an Oregon Municipal Corporation, is organized with an elected mayor and council consisting of seven members. The council is charged with the affairs of the City and employs a City Administrator who manages the daily affairs and is responsible for incorporating the various council actions and policies into the daily affairs. The accounting and reporting policies conform to generally accepted accounting principles for local governments. A full range of municipal services are provided to the community, which include police protection, traffic control and improvement, street maintenance and improvement, water, sanitary, sewer, and surface water management services, planning and zoning regulation, building inspection and regulation, and parks and recreational activities.

THE FINANCIAL REPORTING ENTITY

Management, in determining what potential component entities should be included for financial reporting purposes, considered accountability for fiscal matters, other manifestations of oversight responsibility, scope of public service, and special financing relationships. Fiscal accountability, the most significant of all criteria, refers to conditions of financial interdependence between two entities including budgetary adoption, taxing authority, responsibility for debt and control over or responsibility for financial management. Other manifestations of oversight responsibility encompass the ability to select governing authority, designate management, or significantly influence operations. The scope of public service evaluates the benefits derived in terms of the citizenry served or the geographic boundaries included.

The accompanying financial statements present the City (primary government) and its blended component unit (Madras Redevelopment Commission), an entity for which the City is considered to be financially responsible. Component units are separate organizations that are included in the City of Madras' reporting entity because of the significance of their operational or financial relationships with the City.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The Madras Redevelopment Commission (the Agency) is the Urban Renewal Agency for the City of Madras, and was formed to undertake urban renewal projects and activities pursuant to the City's redevelopment plan. The Board of Directors of the Agency consists of an eight member board with three members of the Madras City Council and five members at large appointed by the Madras City Council. The City is required to certify to the County Assessor any incremental taxes to be levied for the benefit of the Agency. Because the City Council appoints its governing board and services are provided almost entirely within the City of Madras, it has been included as a blended component unit in the financial statements. Complete financial statements for the Agency may be obtained at the City's administrative offices, 125 SW E Street, Madras, Oregon 97741-1685.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the City and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. Exceptions to this include inter-fund services provided and/or used between the governmental and proprietary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Entries have been made to eliminate the double counting of internal activities. Direct expenses are not eliminated from the various functional categories.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government, public safety, streets, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds and proprietary funds. Each fund is considered to be a separate accounting entity. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be measurable to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The following major governmental funds are reported:

General Fund

This is the primary operating fund. It accounts for the financial operations, which are not accounted for in any other fund. Principal sources of revenue are property taxes, intergovernmental revenues, licenses and fees, charges for services, and other miscellaneous revenues. Primary expenditures are for police, parks, the industrial site, and transfers to other funds.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Special Revenue Fund

This fund accounts for revenues received from state gasoline tax which are to be expended for the construction, maintenance and use of the City streets. In addition, the fund accounts for financial resources to be used for improvements to street and utility systems, as well as certain community development activities of the City. In addition, to state gasoline tax revenue, principal resources include intergovernmental revenues, franchise fees, community development fees, and interest on investments.

Madras Redevelopment Commission Fund (MRC)

This fund includes both the MRC General Fund and Reinvestment Fund. The general fund accounts for the City's urban renewal projects. Revenues are from property taxes and issuance of debt, and expenditures are for the elimination of blighted conditions and urban development as defined in the City's Urban Renewal Plan.

The reinvestment fund is a legally budgeted separate fund, however management combines the fund with the MRC general fund for major fund purposes to present the full financial results of the component unit. The purpose of the reinvestment fund is to account for receipts from the repayment of redevelopment loans and the resources available for future projects.

Debt Service Fund

These funds account for payments of principal and interest on the city's loans. Revenues are primarily from property taxes from the county. In addition, the fund accounts for legally required debt reserve funds where the debtor has required establishment of a reserve fund.

Capital Projects Fund

These funds are used to account for expenditures on major construction projects or equipment acquisition. The principal sources of revenues are system development charges and proceeds from long-term obligations issued to finance capital acquisitions and improvements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The following major proprietary funds are reported:

Water Funds

This fund accounts for the activities of the water distribution system. Revenue is derived primarily from water service charges.

Wastewater Fund

This fund accounts for the activities of the wastewater collection and treatment system. Revenue is derived primarily from sewer service charges.

The Airport Fund

This fund accounts for the activities associated with the operations and capital improvements of the City's municipal airport.

Internal Service Fund

These funds account for equipment maintenance activities and services furnished internally to other departments on a cost reimbursement basis. Charges are made to the various departments to support these activities. The activities, which include central services, public works administration, building maintenance and improvement, and fleet maintenance and acquisition, are reflected as the internal service fund in the fund financial statements. These activities are allocated between the governmental and proprietary activities based on the percentage of expenses reimbursed by governmental funds and proprietary funds.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BUDGETS

A budget is prepared for all funds, in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. The parks fund and industrial site fund are budgeted as separate funds for Oregon Budget Law, but they are combined with the general fund under GAAP. The budget process begins in each fiscal year with the establishment of the Budget Committee. Recommendations are developed through late winter with the Budget Committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund other than the general fund:

LEVEL OF CONTROL

Functional Operations	Inter-fund Transactions
Materials and Services	Debt Service
Capital Outlay	Operating Contingency
Special Payments	

The general fund is appropriated at the department level along with transfers and contingencies. Expenditures cannot legally exceed the above appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year-end. Management may amend line items in the budget without Council approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Council approves them due to a need which exists which was not determined at the time the budget was adopted.

While the financial position, results of operations, and changes in fund balance/net position is reported on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The primary differences between the budgetary basis and GAAP basis are that capital outlay is expensed when purchased, depreciation and amortization expenses are not reported, property taxes are recognized as revenue when received instead of when levied, inventory is expensed as purchased, and proceeds of long-term borrowing are recognized as an "other financing source" and principal paid is considered an expenditure when paid. Bond issue costs are recognized as expenditures when bonds are issued.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including cash and investments in the investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property Taxes

Property taxes are levied on and become a lien against the property on July 1, when they are levied, in the year in which they are due. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent. In the fund financial statements, property taxes receivable that are collected by the County prior to year-end are reported as revenue. The remaining balance is reported as deferred revenue. Management has determined that no provision for uncollectible property taxes is considered necessary. In the government-wide financial statements, property taxes are recognized as revenue when earned.

Assessments are recognized as receivables at the time property owners are assessed on property improvements. These assessments are liens on the affected properties. These receivables are offset by deferred revenue, as assessment revenue is recognized upon collection. The assessments are repaid over a ten year period on a semi-annual basis including interest. The interest rate charged on the assessments range from 6.5% to 7% depending when the project was assessed. Management has determined that no provision for uncollectible assessments is considered necessary. In the government-wide financial statements, assessment receivables are recognized as revenue when earned. Uncollected property taxes are shown in the combined balance sheet. Uncollected taxes are deemed by management to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property taxes collected within approximately sixty days of fiscal year-end are recognized as revenue. The remaining balance of taxes receivable is recorded as deferred revenue because it is not deemed available to finance operations of the current period. Receivables of the enterprise funds are recognized as revenue when earned, including services provided but not billed.

Supply Inventories

Inventories are valued at cost or estimated cost, which approximate market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed. Inventories in the governmental funds are offset by a fund balance reserve in the government fund financial statements to indicate they do not represent "available spendable resources." In the government-wide financial statements, inventories are not offset by a fund balance reserve. The inventory amounts presented in the governmental and proprietary funds for materials and supplies are based on actual quantities and historical cost.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Redevelopment Properties

Assets are constructed and refurbished for the benefit of the City and businesses in the local area, and any assets constructed or improved are generally property of the benefiting entity. In addition, the City purchases property through the redevelopment commission to be refurbished and sold. The redevelopment properties are reported at their estimated fair value in both the fund and government-wide financial statements.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as tangible assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one operating cycle. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized costs for a majority of the older assets are based on estimated costs established by engineering studies performed by personnel, since there was no election to report major general infrastructure retroactively.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Exhaustible assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	
Buildings and improvements	50 - 75
Plant in service	20 - 50
Machinery and equipment	7-15

Capital assets include contributions of capital assets from outside developers. Revenues from these capital contributions are reflected in business-type activities funds as capital contributions. These revenues are not reported in the governmental fund financial statements, but are reflected in the statement of activities as capital contributions revenue in the governmental activities. Capital assets contributed by governmental funds to business-type activities are reflected in the business-type financial statements as contributions. The contribution is not reflected in the governmental fund financial statements, but is reclassified as a transfer to\from governmental fund type to business-type in the statement of activities.

Compensated Absences

It is the policy to permit employees to accumulate earned but unused vacation and compensatory time. Liabilities for unused vacation pay and compensatory time are recorded in the statement of net position and proprietary fund financial statements when vested or earned by employees. A liability for these amounts is reported in governmental funds only if it has matured, for example, because of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Net Position

Net position comprises the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net position is classified in the following three categories:

- Net investment in capital assets - consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - consists of external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - consists of all other net position that is not included in the other categories previously mentioned.

Fund Equity

The City reports fund equity in the following classifications:

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds is approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. Authority to make assignments has been delegated to the City Manager and the Finance Director.
- Unassigned fund balance is the residual classification of the general fund. Only the general fund may report a positive unassigned fund balance. Other governmental funds report any negative residual fund balance as unassigned.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

It is the policy of the City that general fund resources are to be expended when multiple fund balance types are available for a specific purpose, in the following order: Restricted, Committed, Assigned, and Unassigned. All other funds are to expend fund balances in the following order: Assigned, Committed and Restricted.

NOTE 2 – CASH AND INVESTMENTS

A cash pool is maintained that is available for use by all funds. At June 30, 2016, cash and investments reported on the statements consisted of:

Cash and equivalents as reported in financial statements:	
Petty cash	\$ 1,400
Demand deposits	386,415
Investments	<u>3,113,727</u>
	<u>\$ 3,501,542</u>
Total investments	
Unrestricted investment	\$ 3,113,727
Restricted investment	<u>1,218,504</u>
	<u>\$ 4,332,231</u>

Deposits

At June 30, 2016 the City held cash of \$386,415 with a bank balance of \$571,886. Oregon Revised Statute Chapter 295 requires that bank depositories pledge collateral against any public fund deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. The Office of the State Treasurer maintains a list of financial institutions in which deposits in excess of deposit insurance limits can be held. As of June 30, 2016 the City's cash balances exceeded FDIC insurance by \$322,717.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all bank deposits in excess of the FDIC or FSLIC insurance amounts be collateralized through the Oregon State Treasurer's Public Funds Collateralization Program. This program provides a structure for specified depositories to participate in a shared liability collateral pool.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS - continued

Securities pledged by individual institutions may range from 10% to 110% of public fund deposits depending on the financial institution's level of capitalization as determined by its federal regulatory authority. The aggregate Oregon public fund collateral pledged at June 30, 2016, was \$1,425,656,743 for reported uninsured public funds of \$2,060,399,665. The custodian, Federal Home Loan Bank of Seattle, is the agent for the depository bank. The securities pledged are designated as subject to the Pledge Agreement between the depository bank, custodian bank and Office of the State Treasurer (OST) and are held for the benefit of OST on behalf of the public depositors. The District's funds were held by financial institutions that participated in the State Treasurer's program and were in compliance with statutory requirements.

Investments

State of Oregon statutes restrict the types of investments in which the City may invest. Authorized investments include obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper, and the Local Government Investment Pool (LGIP).

The LGIP is one of five asset classes approved for the investment of State of Oregon funds. A number of local governments in Oregon as well as all State agencies participate in the LGIP, thus it is an external investment pool as defined in Statement No. 31 of the Government Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution.

Investments in the LGIP are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The LGIP was in compliance with all portfolio guidelines at June 30, 2016. The reported value of the LGIP approximates the fair value of the LGIP shares and is calculated on a daily basis.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS - continued

As of June 30, 2016, there were the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months) Less than 3</u>
Local Government Investment Pool	\$ 4,332,231	\$ 4,332,231

The State of Oregon LGIP is unrated.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OST. There are no investments that have a maturity date over 3 months.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk.

Concentration of Credit Risk

There is no limit placed on the amount invested in any one issuer. 100% of the investments are in the Local Government Investment Pool. With the exception of pass-through funds, the maximum amount of pooled investments that can be placed in the Oregon LGIP is limited by the State.

Fair Value Measurements

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The District has no investments that are measured using Level 1 or Level 3 inputs.

Fair value measurements of the City's investments are as follows as of June 30, 2016:

- Local Government Investment Pool valued at \$4,332,231. The LGIP states in their footnotes that their investments are measured based on the latest bid prices or evaluated quotes from independent pricing vendors (Level 2 inputs).

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 3 – NOTES RECEIVABLE

Madras Redevelopment Commission funds are expended to improve and refurbish buildings for the benefit of businesses in the local area through a combination grant and loan program, and notes receivable have been recorded to reflect the amount the property owners will repay under the program. The loan portion of the assistance is payable over a maximum of 120 months. The loans are secured by the improved property and are considered fully collectible.

Governmental funds report deferred inflows representing unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds included \$81,987 of unearned revenue from notes receivable.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2016 was as follows:

Description	GOVERNMENTAL ACTIVITIES CAPITAL ASSETS			
	June 30, 2015	Additions	Disposals	June 30, 2016
Capital Assets Not Being Depreciated				
Land	\$ 3,038,867	\$ -	\$ -	\$ 3,038,867
Construction in progress	46,913	56,999	14,358	89,554
Total Capital Assets				
Not Being Depreciated	3,085,780	56,999	14,358	3,128,421
Other Capital Assets				
Land improvements	3,284,710	61,698	-	3,346,408
Buildings and improvements	8,094,700	-	-	8,094,700
Equipment	2,142,234	169,867	7,110	2,304,991
Infrastructure	12,148,033	127,445	-	12,275,478
Total Other Capital Assets	25,669,677	359,010	7,110	26,021,577
Less Accumulated Depreciation				
Land improvements	701,729	161,173	-	862,902
Buildings and improvements	1,033,029	197,586	-	1,230,615
Equipment	1,678,835	129,297	7,110	1,801,022
Infrastructure - streets	1,686,712	243,737	-	1,930,449
Total Accumulated Depreciation	5,100,305	731,793	7,110	5,824,988
Total Capital Assets Being Depreciated, Net				
	20,569,372	(372,783)	-	20,196,589
Total Governmental Activities	\$ 23,655,152	\$ (315,784)	\$ 14,358	\$ 23,325,010

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS - continued

Depreciation Expense for governmental activities is charged to functions as follows:

Function	Governmental Funds
General Services	\$ 276,186
Parks	89,085
Public Safety	43,264
Highway and Streets	323,258
 Total	 \$ 731,793

Capital asset activity for business type activities for the year ended June 30, 2016 was as follows:

Description	BUSINESS TYPE ACTIVITIES			
	June 30, 2015	Additions	Disposals	June 30, 2016
Capital Assets Not Being Depreciated				
Land	\$ 1,727,177	\$ -	\$ -	\$ 1,727,177
Construction in progress	2,591,840	562,571	2,647,734	506,677
Total Capital Assets Not Being Depreciated	4,319,017	562,571	2,647,734	2,233,854
Other Capital Assets				
Land improvement	142,300	14,490	-	156,790
Buildings and improvements	5,272,306	20,750	-	5,293,056
Equipment	1,253,586	297,834	-	1,551,420
Infrastructure	37,948,883	2,896,895	-	40,845,778
Total Other Capital Assets	44,617,075	3,229,969	-	47,847,044
Less Accumulated Depreciation				
Land improvement	24,623	5,104	-	29,727
Buildings and improvements	810,498	99,794	-	910,292
Equipment	1,108,899	120,712	-	1,229,611
Infrastructure	8,433,662	617,040	-	9,050,702
Total Accumulated Depreciation	10,377,682	842,650	-	11,220,332
Total Capital Assets Being Depreciated, Net	34,239,393	2,387,319	-	36,626,712
Total Business Type Activities	\$ 38,558,410	\$ 2,949,890	\$ 2,647,734	\$ 38,860,566

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS – continued

Depreciation expense for business type activities is charged to functions as follows:

Function	Business Type Funds
Water	\$ 20,686
Wastewater	560,947
Airport	261,017
 Total	 \$ 842,650

NOTE 5 – ACCRUED COMPENSATED ABSENCES

Compensated absences activity during the year was as follows:

Compensated Absences	Beginning Balance	Additional Accrued	Used	Ending Balance
Governmental Activities	\$ 172,597	\$ 137,811	\$ (143,943)	\$ 166,465

NOTE 6 – LONG TERM DEBT

Long term debt information is presented separately with respect to governmental and business-type activities. The following table shows the fiscal year changes in long-term debt outstanding, along with the current portion for each. At June 30, 2016, the City was in compliance with Oregon law with regard to debt limitations.

	June 30, 2015	Additions	Payments	June 30, 2016	Due Within One Year
Governmental Activities:					
Contracts, loans and notes	\$ 1,289,114	\$ 150,000	\$ (883,129)	\$ 555,985	\$ 348,167
Bonds payable	6,042,353	805,230	(224,081)	6,623,502	223,080
OPEB liability	298,775	41,349	-	340,124	-
Long-term obligations	\$ 7,630,242	\$ 996,579	\$ (1,107,210)	\$ 7,519,611	\$ 571,247
 Business-Type Activities:					
Contracts, loans and notes	\$ 1,391,792	\$ -	\$ (1,166,475)	\$ 225,317	\$ 10,988
Bonds payable	10,583,796	1,264,770	(189,896)	11,658,670	133,045
OPEB liability	31,396	6,396	-	37,792	-
Long-term obligations	\$ 12,006,984	\$1,271,166	\$ (1,356,371)	\$ 11,921,779	\$ 144,033

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG TERM DEBT - continued

Issuance of Full Faith and Credit Bonds

On September 16, 2015, the City issued Full Faith and Credit bonds to retire various notes payable and bank loans in the Internal Service Fund, Water Fund, Wastewater Fund and Airport Fund. Because payments in excess of principal and accrued interest were not required, the issuance was not accounted for as a refunding. Accordingly, no deferred charges are reported related to future debt service. Estimated future interest savings from the retirement of the old debt is \$268,053.

Total proceeds from the issuance were \$2,177,528, including \$2,070,000 for the bonds and premium of \$107,528. The bonds mature on December 31, 2036. Interest rates range from 1.0% to 4.0%.

Contracts, Loans and Notes – Governmental Activities

The City entered into an intergovernmental agreement with Jefferson County to finance the cost of the J Street improvements. Jefferson County issued \$2,265,000 of full faith and credit obligations and the City is responsible to repay the County for 54.92% of the annual debt service. The City's portion of the debt requires interest payments December 1 of each year and principal and interest payments June 1 of each year. The obligations are secured by the full faith and credit of the City with interest rates ranging from 2% to 4%. Effective March 24, 2014 the City and County renegotiated the contract in light of the County's decision to pay off their outstanding debt and finance the residual balance of \$491,536 directly with the City at a fixed interest rate of 3.85%. The updated contract is payable through 6/1/19 at annual installments of \$109,948.

The Madras Redevelopment Commission drew down an additional \$150,000 on their line of credit during the year for a total balance of \$250,000.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG TERM DEBT - continued

Future maturities of the combined notes and contracts payable are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 348,167	\$ 11,780	\$ 359,947
2018	101,947	8,001	109,948
2019	<u>105,871</u>	<u>4,076</u>	<u>109,947</u>
	<u>\$ 555,985</u>	<u>\$ 23,857</u>	<u>\$ 579,842</u>

Bonds Payable – Governmental Activities

During 2012, the Madras Redevelopment Commission converted a bond anticipation line of credit into a long-term bonding obligation in the amount of \$2,585,000 provided by the Local Oregon Capital Assets program. The obligation is secured by the full faith and credit of the City with interest rates ranging from 1.1% to 3.5% and matures June 1, 2032.

As described previously, the City retired the Special Public Works Fund Loan using proceeds from the 2015 Full Faith and Credit bond issue. The proceeds received in the capital project fund were \$805,230.

Future maturities of the outstanding balances are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 141,955	\$ 97,286	\$ 239,241
2018	146,955	94,816	241,771
2019	146,955	91,512	238,467
2020	151,955	86,923	238,878
2021	160,845	82,120	242,965
2022-2026	875,060	329,813	1,204,873
2027-2031	1,018,400	165,818	1,184,218
2032-2036	<u>309,205</u>	<u>17,678</u>	<u>326,883</u>
	<u>\$ 2,951,330</u>	<u>\$ 965,966</u>	<u>\$ 3,917,296</u>

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG TERM DEBT - continued

Bonds Payable – Internal Services Activities

On March 14, 2011, the City issued bonds to finance the design and construction of a new City Hall and Police Station on the corner of 4th Street and E Street in Madras. The funding is through a Certificate of Participation, Series 2011 B, Local Oregon Capital Assets Program. Interest is to be paid semi-annually on June 1 and December 1. The obligations are secured by the full faith and credit of the City with interest rates ranging from 3% to 5.2%.

The City received a USDA loan in the amount of \$2,200,000 on March 22, 2013. Interest is to be paid on an annual basis with an interest rate of 3.125%.

Future maturities of the outstanding balances are as follows:

June 30	Principal	Interest	Total
2017	\$ 81,125	\$ 136,963	\$ 218,088
2018	87,098	134,153	221,251
2019	88,101	131,225	219,326
2020	89,135	128,265	217,400
2021	95,202	125,186	220,388
2022-2026	523,215	568,475	1,091,690
2027-2031	645,352	451,178	1,096,530
2032-2036	797,832	295,746	1,093,578
2037-2041	306,550	179,105	485,655
2042-2046	357,536	128,116	485,652
2047-2051	417,004	68,650	485,654
2052-2053	184,022	8,644	192,666
	<u>\$ 3,672,172</u>	<u>\$ 2,355,706</u>	<u>\$ 6,027,878</u>

Bond Payable – Business Type Activities - Water Fund

As described previously, the City retired the Special Public Works Fund Loan using proceeds from the 2015 Full Faith and Credit bond issue. The proceeds received in the water fund were \$124,200.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG TERM DEBT - continued

Future maturities for the Water Fund portion of the bonds are as follows:

June 30	Principal	Interest	Total
2017	\$ 5,700	\$ 3,623	\$ 9,323
2018	5,700	3,566	9,266
2019	5,700	3,480	9,180
2020	5,700	3,366	9,066
2021	6,300	3,246	9,546
2022-2026	32,400	14,000	46,400
2027-2031	36,000	7,788	43,788
2032-2036	20,700	1,781	22,481
	<u>\$ 118,200</u>	<u>\$ 40,850</u>	<u>\$ 159,050</u>

Contracts, Loans and Notes - Business Type Activities - Wastewater Fund

The City received \$174,778 through DEQ's Clean Water Revolving Fund loan program. This amount will be repaid over a twenty year period. The balance owed by the City as of June 30, 2016 is \$167,412.

Future maturities of the Wastewater Fund notes and contracts payable are as follows:

June 30	Principal	Interest	Total
2017	\$ 7,591	\$ 4,485	\$ 12,076
2018	7,798	4,278	12,076
2019	8,010	4,066	12,076
2020	8,229	3,847	12,076
2021	8,453	3,623	12,076
2022-2026	45,857	14,523	60,380
2027-2031	52,463	7,917	60,380
2032-2034	29,011	1,189	30,200
	<u>\$ 167,412</u>	<u>\$ 43,928</u>	<u>\$ 211,340</u>

Bond Payable – Business Type Activities – Wastewater Fund

The City refunded a large portion of debt held in the Wastewater Fund on January 23, 2013 through the issuance of the Full Faith and Credit Refunding Obligations 2013B. The obligation is secured by the full faith and credit of the City with interest rates ranging from 2.0% to 4.125% and matures June 30, 2038.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG TERM DEBT - continued

As described previously, the City retired the Special Public Works Fund Loan using proceeds from the 2015 Full Faith and Credit bond issue. The proceeds received in the wastewater fund were \$53,199.

Future maturities of the bond issues are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 77,442	\$ 425,696	\$ 503,138
2018	112,442	424,133	536,575
2019	167,442	421,622	589,064
2020	197,442	414,973	612,415
2021	237,699	407,121	644,820
2022-2026	1,698,880	1,865,401	3,564,281
2027-2031	2,640,422	1,431,448	4,071,870
2032-2036	3,668,860	818,676	4,487,536
2037-2038	1,705,000	106,219	1,811,219
	<u>\$ 10,505,629</u>	<u>\$ 6,315,289</u>	<u>\$ 16,820,918</u>

Contracts, Loans and Notes- Business Type Activities - Airport Funds

The City has a loan from Jefferson County to fund the Berg Drive Extension to Cherry Lane. Fifteen installment payments of principal and interest at 3.0% are required. The note matures on July 15, 2028.

Amortization of the outstanding balance is as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,708	\$ 1,737	\$ 5,445
2018	3,819	1,626	5,445
2019	3,933	1,511	5,444
2020	4,051	1,393	5,444
2021	4,173	1,272	5,445
2022-2026	22,820	4,405	27,225
2027-2029	15,401	934	16,335
	<u>\$ 57,905</u>	<u>\$ 12,878</u>	<u>\$ 70,783</u>

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6 – LONG TERM DEBT - continued

Bonds Payable - Business Type Activities - Airport Fund

As described previously, the City retired the Special Public Works Fund Loan and the USDA Airport Hangar Loan using proceeds from the 2015 Full Faith and Credit bond issue. The proceeds received in the airport fund were \$1,087,371.

Future maturities of the bond issue is as follows:

June 30	Principal	Interest	Total
2017	\$ 49,904	\$ 31,715	\$ 81,619
2018	49,904	31,216	81,120
2019	49,904	30,467	80,371
2020	49,904	29,469	79,373
2021	55,157	28,419	83,576
2022-2026	283,664	122,566	406,230
2027-2031	315,182	68,184	383,366
2032-2036	181,222	15,601	196,823
	\$ 1,034,841	\$ 357,637	\$ 1,392,478

NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT SYSTEM

Plan Description

The District contributes to the Oregon Public Employees Retirement System (PERS) which is a cost sharing multiple employer defined benefit pension plan. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. Participation by school districts is mandatory. As of June 30, 2015 there were 919 participating employers and State Agencies. PERS issues a publicly available financial report which can be obtained on their website, www.oregon.gov/PERS.

PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (Board) to administer and manage the System. All members of the Board are appointed by the governor and confirmed by the state Senate. The governor designates the chairperson. One member must be a public employer manager or a local elected official, one member must be a union-represented public employee or retiree, and three members must have experience in business management, pension management, or investing.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT SYSTEM - continued

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. As of June 30, 2015, there were 32,542 active plan members, 119,865 inactive plan members or their beneficiaries currently receiving benefits, 15,847 inactive plan members entitled to but not yet receiving benefits, and 10 inactive plan members not eligible for refund or retirement, for a total of 168,264 Tier One members. As of June 30, 2015, there were 41,275 active plan members, 10,890 inactive plan members or their beneficiaries currently receiving benefits, 15,400 inactive plan members entitled to but not yet receiving benefits, and 753 inactive plan members not eligible for refund or retirement, for a total of 68,318 Tier Two members in the System.

The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit), which is part of the Plan and the Individual Account Program, which is reported as a separate plan in PERS financial statements. Membership includes public employees hired on or after August 29, 2003. As of June 30, 2015, there were 94,773 active plan members, 1,751 inactive plan members or their beneficiaries currently receiving benefits, 4,227 inactive plan members entitled to but not yet receiving benefits, and 8,549 inactive plan members not eligible for refund or retirement, for a total of 109,300 OPSRP Pension Program members.

Beginning January 1, 2004, PERS active Tier One and Tier Two members became members of the Individual Account Program (IAP) of OPSRP. PERS members retain their existing Plan accounts, but member contributions are now deposited into the member’s IAP account, not into the member’s Defined Benefit Plan account. Accounts are credited with earnings and losses net of administrative expenses. OPSRP is part of PERS and is administered by the Board. The PERS Board is directed to adopt any rules necessary to administer OPSRP, and such rules are to be considered part of the plan for IRS purposes.

For the year ended June 30, 2016, the City’s total payroll for all employees was \$1,846,828. Total covered payroll was \$1,728,503. Covered payroll refers to all compensation paid by the City to active employees covered by PERS.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM - continued**

Contributions

PERS members are required to contribute 6% of their salary and the employer makes contributions at an actuarially determined rate as adopted by the PERS Board. The rate for Tier I and Tier II for the year ended June 30, 2016 was 14.02% of covered annual payroll. The rate for OPSRP for the year ended June 30, 2016 was 9.91%. The rate for police and fire employees was 17.66%. The contribution requirements of plan members are established by state statute. The employer contribution is set and may be amended by the Retirement Board. The City’s contributions to Oregon PERS for the year ended June 30, 2016 was \$237,410. In addition, employee contributions made by the City under employment contracts were \$103,335 employee contributions for the year ended June 30, 2016.

Pension Assets, Pension Income, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$1,536,310 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. Update procedures were used to roll forward the total pension liability to the measurement date.

The basis for the employer’s proportion is actuarially determined by comparing the employer’s projected long-term contribution effort to the Plan with the total projected long-term contribution effort of all employers. No change has been made to the City’s proportionate share since the prior measurement date. The rate for every employer has at least two major components; Normal Cost Rate and Unfunded Actuarial Liability (UAL) Rate.

The projected long-term contribution effort is estimated by projecting the present value of all future Normal Cost Rate Contributions (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.

An employer’s PVFNC depends on both the Normal Cost Rates charged on the employer’s payrolls, and on the underlying demographics of the respective payrolls. For PERS funding, employers have three different payrolls, each with a different Normal Cost Rate:

- Tier 1/Tier 2 payroll
- OPSRP General Service payroll
- OPSRP Police & Fire payroll

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM - continued**

A UAL exists when Plan assets are less than the actuarial liability as measured by the Plan’s actuarial funding valuations. UAL can arise in a biennium when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises in a given biennium over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year’s component of the cumulative amortization schedules, stated as a percent of payroll. The UAL represents the portion of the projected long-term contribution effort related to past service. The projected long-term contribution effort is equal to the sum of the PVFNC and the UAL.

After the employer’s projected long-term contribution effort is calculated, that amount is reduced by the value of the employer’s supplemental lump-sum payments, known as side accounts, transition surpluses and pre-SLGRP (State and Local Government Rate Pool) surpluses. Side accounts decrease the employer’s projected long-term contribution effort because side accounts are effectively pre-paid contributions.

The employer’s projected long-term contribution effort does not include contributions toward the current value of transition liabilities and pre-SLGRP (State and Local Government Rate Pool) liabilities, which PERS has determined meet the definition of separately financed employer liabilities.

For the year ended June 30, 2016, the City recognized pension expense of \$1,280,151. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM - continued**

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 84,302	\$ -
Differences between projected and actual investment earnings	-	327,705
Change in proportionate share	8,371	-
Differences between employer contributions and employer's proportionate share of system contributions	-	112,936
Subtotal - amortized deferrals	92,673	440,641
District contributions subsequent to the measurement date	237,410	-
Total	\$ 330,083	\$ 440,641

The \$237,410 of deferred outflows of resources resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ (162,044)
2018	(162,044)
2019	(162,044)
2020	138,063
2021	99
	\$ (347,970)

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM - continued**

Actuarial Assumptions

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	2.75 percent
Salary increases	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service
Long-term expected rate of return	7.75 percent

Mortality rates were based on the RP-2000 sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members’ mortality rates are a percentage of healthy retiree rates that vary by group. Disabled retirees’ mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined mortality sex-distinct table.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for 2014, published September 2015.

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Long term expected real rate of return
Cash	0.0%	0.0%
Debt securities	20.0%	4.4%
Public equity	37.5%	22.3%
Private equity	20.0%	26.2%
Real estate	12.5%	11.2%
Alternative equity	10.0%	6.3%
Opportunity portfolio	0.0%	21.5%

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM - continued**

Discount Rate

The discount rate used to measure the total pension liability of the Plan was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount rate	Proportionate share of net pension liability (asset)
1% decrease	6.75%	\$ 3,772,990
Current discount rate	7.75%	1,563,310
1% increase	8.75%	(298,870)

Plan Fiduciary Net Position

Detailed information about PERS’s fiduciary net position is available in the separately issued Oregon Public Employees’ Retirement Plan financial report, available on the Oregon PERS website.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 7 – PARTICIPATION IN PUBLIC EMPLOYEES’ RETIREMENT
SYSTEM - continued**

Deferred Items

Deferred items are calculated at the Plan level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2015, the following deferred items are reported:

- Difference between expected and actual experience, amortized over 5.4 years
- Changes in employer proportion since the prior measurement date, amortized over 5.4 years
- Net Difference between projected and actual earnings, amortized over a closed five-year period.
- Difference between employer contributions and proportionate share of contributions, amortized over 5.4 years.
- Employer contributions made after the measurement date.

NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The OPEB for the City combines two separate plans. The City provides a stand-alone early retirement plan for employees meeting certain eligibility requirements and a contribution to the State of Oregon’s OPERS cost sharing multiple employer defined benefit plan.

Early retirement plan

Plan Description

A program is provided for the availability for retirees and their spouses to purchase healthcare insurance at the same group rates as the City pays for its active employees. No plan has been established to account for this activity. Because the former employees’ service has caused this benefit to be available, generally accepted accounting principles requires that the costs of these services be calculated and shown as a cost of operations and/or as a liability for providing a future benefit in the financial statements.

Funding Policy

There is no plan to fund these benefits, and an actuary has calculated that there was no implied subsidy included in healthcare costs for the year ended June 30, 2016.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) – continued

Annual OPEB Cost and Net OPEB Obligation

The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount implicitly contributed to the "plan" through the normal payments to healthcare insurance providers and changes to the OPEB obligation.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual required contribution (ARC)	\$ 82,308	\$ 101,379	\$ 94,178
Interest on net position obligation	11,556	9,019	6,673
Adjustment to annual required contribution	<u>(39,700)</u>	<u>(30,983)</u>	<u>(22,925)</u>
Annual OPEB cost	54,164	79,415	77,926
Explicit benefit payments	<u>(6,419)</u>	<u>(6,916)</u>	<u>(10,911)</u>
Increase in net pension obligation	47,745	72,499	67,015
Net OPEB obligation at beginning of the year	<u>330,171</u>	<u>257,672</u>	<u>190,657</u>
Net OPEB obligation at end of the year	<u>\$ 377,916</u>	<u>\$ 330,171</u>	<u>\$ 257,672</u>
Percentage of ARC contributed	12%	9%	14%

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) - continued

Funding status and funding progress

As of August 1, 2014 the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$413,866, of which none was funded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and the annual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substitutive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit costs, if any, to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

- Discount rate: 3.5% for unfunded liabilities.
- Health Cost Trend for medical and vision: increases of 5.75% for the first year, 5.5% for years 2015-2019, 5.75% in 2030, 6.0% in 2031, 6.5% in 2032, ranging from 6.75% to 5.0% for years 2033-2069 and 4.75 thereafter.
- General Inflation: 2.75%.
- Disability: Not used.
- Retirement: Based on the Oregon PERS assumptions.
- Withdrawal: Based on the Oregon PERS assumptions.
- Mortality: RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality was projected on a generational basis using Scale AA for males and females.
- Excluded employees: Temporary and part-time employees, elected officials and volunteers.
- Past PERS service: Estimated based on elapsed time from date of hire to the most recent valuation.
- Future PERS service: Generally assumed to accrue at a rate of 1.0 per year until retirement.

**CITY OF MADRAS
(Jefferson County, Oregon)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) - continued**

- Future retiree coverage: 100% of active members eligible for employer-paid health care coverage.
- Spousal age: Females spouses are assumed to be two years younger than male spouses.

OPERS Retirement Health Insurance Account (RHIA)

Plan description

As a member of Oregon Public Employees Retirement System (OPERS), the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other post-employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and Required Supplementary Information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, or by calling (888) 320-7377.

Funding Policy

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a OPERS-sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) - continued

Participating cities are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.59% of annual covered payroll for Tier 1 & 2 and 0.49% for OPSRP. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

NOTE 9 – OPERATING LEASES

There are multiple operating leases in effect. Approximate future minimum rental commitments under these lease agreements are as follows:

Year Ending	Amount
June 30, 2017	\$ 19,830
June 30, 2018	11,568
Total	\$ 31,398

NOTE 10 – INTERFUND TRANSFERS

Transfers between funds provide support for various City programs in accordance with budgetary authorizations. During fiscal year 2015-16, the City made the following inter-fund transfers between its governmental activities and business-type activities:

Amount	Description
\$ 40,000	From the Internal Service Fund to the Airport Fund to fund general operations
7,500	From the Capital Project Fund to the Special Revenue Fund to fund general operations
29,956	From the Wastewater Fund to the Debt Service Fund to fund debt payments
131,000	From the Internal Service Fund to the Community Development Fund to fund general operations
9,713	From the Internal Service Fund to the Debt Service Fund to fund debt payments

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 11 – RESTRICTED NET POSITION

At June 30, 2016 net position included \$3,300,764 of restricted net position. Of this amount, \$3,300,764 is restricted by enabling legislation.

NOTE 12 – RISK MANAGEMENT

There is exposure to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions, injuries to employees, and natural disasters for which commercial insurance is carried. There have been no significant reductions in coverage from the prior year. Settled claims have not exceeded coverage in any of the last three fiscal years.

NOTE 13 – COMMITMENTS

The City entered into a new option agreement with a local land developer for the sale of 67 acres within the City limits and 542 acres outside the City limits, which is separated into various parcels. \$50,000 was paid as part of the agreement for the first five year term of additional eight years by paying \$10,000 annually beginning December 1, 2014. The option may be exercised through phases consisting of not less than ten acre contiguous parcels and the prices for each phase shall be at fair market value, but in no event will the purchase price be less than \$9,000 per acre.

The City's SPWF loan/grant agreement includes a job creation requirement that should cause Butler Air to create or retain 35 FTE for a one year period consisting of four consecutive calendar quarters that begins no earlier than 1/1/2010 and no later than 12/31/2013. The potential penalty is \$5,000 per job requirement not met. The IOF grant agreement requires that within two years of execution of this agreement, the City shall provide to the State, documentation from Madras Airport that two FTE have been retained and 13 FTE positions created. On June 20, 2012 this agreement was amended reducing the required number of newly created jobs from 13 to 8 FTE positions and to grant an additional 36 months to meet the job creation requirement. If such documentation cannot be provided within the above stated time limit, City shall reimburse the State IOF Funds in proportion to the jobs created versus target number of jobs created. The State may grant a time extension on the reimbursement or a time extension to provide additional job growth.

The City is committed to providing the Bean Foundation either 120 acres of land or cash in the value of 120 acres. The City holds the option to either deed assets of land or to pay the cash, which is based upon if land development sales do not occur within the Yarrow development.

The Madras Redevelopment Commission has an agreement with a developer to promote the construction of a movie theater. The Commission committed to making five annual payments in the amount of \$100,000 each upon completion of construction and issuance of a certificate of ownership. The Agency made the final payment during fiscal year 2015-16.

CITY OF MADRAS
(Jefferson County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 13 – COMMITMENTS – continued

The City is obligated under a construction contract with Alex Hodge Construction with a remaining contract balance of \$689,869 as of June 30, 2016.

NOTE 14 – CONTINGENCIES AND LITIGATION

A number of federal and state assisted programs are participated in. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant. Management believes that such disallowance, if any, will be immaterial.

NOTE 15 – RELATED PARTY TRANSACTIONS

Berg Air is owned and operated by the Fixed Base Operator (Manager) at City of Madras airport who was also formerly a commissioner on the Madras Development Commission. Berg Air purchases fuel from the City at cost plus \$0.05 per gallon. Annual fuel sales for fiscal year 2015-2016 were \$11,138.

The Madras Redevelopment Commission (MRC), a blended component unit, provides funds to local businesses to improve and refurbish properties in the Urban Renewal District through a combination of grants and loans. In a prior year, a local business owned by a Commissioner was awarded \$57,425, which consisted of a 50% grant and 50% loan payable to the Commission. The outstanding loan balance at year end was \$4,370 and is payable in monthly installments through January 2020. This award was consistent with MRC's policy and was discussed and approved during a monthly public meeting of the Urban Renewal District. The commissioner did not participate in the deliberation or vote.

NOTE 16 – DEFICIT FUND BALANCES

As of the year ended June 30, 2016, deficit fund balances existed in the Redevelopment Commission General Fund in the amount of \$1,621,218. Management has a plan in place to correct these negative fund balances by prudent fiscal management and by ensuring that revenues exceed expenditures in the coming years.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

GENERAL FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance to Final Budget
REVENUES:				
Taxes				
Property taxes	\$ 1,195,000	\$ 1,195,000	\$ 1,203,904	\$ 8,904
Other taxes	343,987	343,987	388,502	44,515
Franchise fees	391,400	391,400	413,809	22,409
Charges for service	39,500	39,500	40,171	671
Licenses and permits	-	-	1,110	1,110
Intergovernmental	301,988	326,988	331,045	4,057
Fines	40,000	40,000	41,048	1,048
Rental income	-	-	6,929	6,929
Miscellaneous	-	-	2,630	2,630
Interest	1,350	1,350	118	(1,232)
	2,313,225	2,338,225	2,429,266	91,041
EXPENDITURES:				
Police department	2,033,987	2,033,987 (1)	1,933,321	(100,666)
General government	85,010	90,560 (1)	83,488	(7,072)
Parks	239,700	239,700 (1)	220,354	(19,346)
Industrial site	49,840	74,840 (1)	50,803	(24,037)
Tourism	118,807	158,807 (1)	135,883	(22,924)
Contingency	175,000	129,450 (1)	-	(129,450)
	2,702,344	2,727,344	2,423,849	(303,495)
Net Change in Fund Balance	(389,119)	(389,119)	5,417	394,536
Beginning Fund Balance	964,103	964,103	1,090,409	352,651
Ending Fund Balance	\$ 574,984	\$ 574,984	\$ 1,095,826	\$ 747,187

(1) Appropriation Level

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Variance To Final Budget	Budget Basis	Adjustment	GAAP Basis
REVENUES:						
Charges for services	\$ 1,029,090	\$ 1,085,845	\$ (1,034,388)	\$ 51,457	\$ -	\$ 51,457
Franchise fees	-	-	413,822	413,822	-	413,822
Assessment	-	-	1,573	1,573	-	1,573
Licenses and fees	-	-	81,412	81,412	-	81,412
Intergovernmental	-	-	544,151	544,151	-	544,151
Miscellaneous	-	-	921	921	-	921
Interest on investments	700	200	1,406	1,606	-	1,606
Total Revenues	1,029,790	1,086,045	8,897	1,094,942	-	1,094,942
EXPENDITURES:						
Community development	293,928	357,683 (1)	(32,762)	324,921	-	324,921
Highways and streets	980,700	1,111,200 (1)	(107,699)	1,003,501	226,125	777,376
Capital outlay	-	-	-	-	(226,125)	226,125
Contingency	393,605	108,168 (1)	(108,168)	-	-	-
Total Expenditures	1,668,233	1,577,051	(248,629)	1,328,422	-	1,328,422
Excess of Revenues Over, (Under) Expenditures	(638,443)	(491,006)	257,525	(233,481)	-	(233,481)
OTHER FINANCING SOURCES (USES)						
Transfers in	138,510	159,010	-	159,010	-	159,010
Transfers out	(15,010)	(15,000)	(5,510)	(20,510)	-	(20,510)
Net Change in Fund Balance	(514,943)	(346,996)	252,015	(94,981)	-	(94,981)
Beginning Fund Balance	514,943	346,996	346,996	742,231	-	742,231
Ending Fund Balance	\$ -	\$ -	\$ 599,011	\$ 647,250	\$ -	\$ 647,250

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB #54 due to its financing resources being derived primarily from General Fund transfers.

(1) Appropriation Level

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
OTHER POST EMPLOYMENT BENEFITS

JUNE 30, 2016

PLAN I (HEALTH INSURANCE)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
8/1/2014	\$ -	\$ 413,866	\$ 413,866	0.00%	\$ 1,533,879	27.0%
8/1/2012	-	442,955	442,955	0.00%	1,715,682	25.8%
8/1/2010	-	413,797	413,797	0.00%	1,897,484	21.8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual OPEB Cost	OPEB Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 58,893	\$ 22,968	39%	\$ 150,931
6/30/2013	61,999	22,273	36%	190,657
6/30/2014	77,926	10,911	14%	257,672
6/30/2015	79,415	6,916	9%	330,171
6/30/2016	54,164	6,419	12%	377,916

The above table presents the most recent actuarial valuations for the District's post-retirement health insurance and it provides information that approximates the funding progress of the plan.

**CITY OF MADRAS
(Jefferson County, Oregon)**

**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
PENSION RELATED**

JUNE 30, 2016

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPL)	(b) Employer's proportionate share of the net pension liability (NPL)	(c) CAL's covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	2.7%	\$ 1,563,310	\$ 1,758,503	88.9%	91.9%
2015	2.7%	(606,140)	1,571,466	-38.6%	103.6%
2014	2.7%	1,364,628	1,533,879	89.0%	92.0%

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SCHEDULE OF CONTRIBUTIONS

Year	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percent of covered payroll
2016	\$ 237,410	\$ 237,410	\$ -	\$ 1,758,503	13.5%
2015	197,022	197,022	-	1,571,466	12.5%
2014	203,857	203,857	-	1,533,879	13.3%

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MADRAS
(Jefferson County, Oregon)

COMBINING BALANCE SHEET
MADRAS REDEVELOPMENT COMMISSION

JUNE 30, 2016 and summarized information for 2015

	Governmental Fund Types		Total	
	General Fund	Reinvestment Fund	2016	2015
ASSETS				
Current assets				
Cash and investments	\$ 91,497	\$ 268,908	\$ 360,405	\$ 349,138
Receivables:				
Property taxes	22,536	-	22,536	23,471
Notes	8,930	73,776	82,705	134,193
Other	-	-	-	6
Total current assets	122,962	342,684	465,646	506,808
Non-current assets				
Redevelopment properties	329,698	-	329,698	329,698
Total Assets	\$ 452,660	\$ 342,684	\$ 795,344	\$ 836,505
LIABILITIES, DEFERRED INFLOWS AND FUND EQUITY:				
Liabilities:				
Accounts payable	\$ 9,050	\$ 16,370	\$ 25,419	\$ 1,924
Due to other funds	2,290,000	-	2,290,000	2,290,000
Total Liabilities	2,299,050	16,370	2,315,419	2,291,924
Deferred inflows:				
Unearned property taxes	19,156	-	19,156	21,845
Unearned project fees	8,931	73,056	81,987	133,493
Total Deferred Inflows	28,086	73,056	101,143	155,338
Fund equity:				
Restricted	(1,874,476)	253,258	(1,621,218)	(1,610,756)
Total Liabilities and Fund Equity	\$ 452,660	\$ 342,684	\$ 795,344	\$ 836,505

CITY OF MADRAS
(Jefferson County, Oregon)

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
MADRAS REDEVELOPMENT COMMISSION**

YEAR ENDED JUNE 30, 2016 and summarized information for 2015

	General Fund	Reinvestment Fund	Total	
			2016	2015
REVENUES:				
Property taxes	\$ 357,076	\$ -	\$ 357,076	\$ 328,967
Assessments	-	89,365	89,365	-
Loan repayment	-	-	-	65,582
Interest on investments	40	3,971	4,011	8,344
Miscellaneous	224	29	253	671
	<u>357,340</u>	<u>93,365</u>	<u>450,704</u>	<u>403,564</u>
Total Revenues				
EXPENDITURES:				
Current:				
Community development	151,917	15,167	167,084	64,270
Debt service	183,367	-	183,367	177,000
	<u>335,284</u>	<u>15,167</u>	<u>350,451</u>	<u>241,270</u>
Total Expenditures				
Excess of Revenues Over Expenditures	<u>22,056</u>	<u>78,197</u>	<u>100,253</u>	<u>162,294</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from line of credit	150,000	-	150,000	100,000
Special payments - grants and loans	(231,786)	(28,930)	(260,715)	(182,500)
	<u>(81,786)</u>	<u>(28,930)</u>	<u>(110,715)</u>	<u>(82,500)</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	(59,730)	49,268	(10,462)	79,794
Beginning Fund Balance	<u>(1,814,746)</u>	<u>203,990</u>	<u>(1,610,756)</u>	<u>(1,690,550)</u>
Ending Fund Balance	<u>\$ (1,874,476)</u>	<u>\$ 253,258</u>	<u>\$ (1,621,218)</u>	<u>\$ (1,610,756)</u>

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

REDEVELOPMENT COMMISSION GENERAL FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance to Final Budget
REVENUES:				
Taxes				
Property taxes	\$ 339,700	\$ 339,700	\$ 357,076	\$ 17,376
Interest	-	-	40	40
Miscellaneous	500	500	224	(276)
Total Revenues	340,200	340,200	357,340	17,140
EXPENDITURES:				
Materials and services	147,200	157,200 (1)	151,917	(5,283)
Debt service	187,500	187,500 (1)	183,367	(4,133)
Contingency	10,000	-	-	-
Total Expenditures	344,700	344,700	335,284	(9,416)
Excess of Revenues Over (Under) Expenditures	(4,500)	(4,500)	22,056	26,556
OTHER FINANCING SOURCES (USES)				
Proceeds from line of credit	240,000	240,000	150,000	(90,000)
Special payments - grants and loans	(210,000)	(236,500) (1)	(231,786)	4,714
Total Other Financing Sources (Uses)	30,000	3,500	(81,786)	(85,286)
Net Change in Fund Balance	25,500	(1,000)	(59,730)	(58,730)
Beginning Fund Balance	359,976	359,976	475,254	115,278
Ending Fund Balance	\$ 385,476	\$ 358,976	415,524	\$ 56,548
Reconciliation to generally accepted accepted account principals and governmental fund ending fund balance				
MRC Reinvestment fund			253,258	
Interfund Loan			(2,290,000)	
FUND BALANCE, ENDING			\$ (1,621,218)	
(1) Appropriation Level			\$ (0)	

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

MRC REINVESTMENT FUND

YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance To Final Budget</u>
REVENUES:				
Assessments	\$ 31,000	\$ 41,000	\$ 89,365	\$ 48,365
Interest on investments	4,000	4,000	3,971	(29)
Miscellaneous	-	-	29	29
	<u>35,000</u>	<u>45,000</u>	<u>93,365</u>	<u>48,365</u>
Total Revenues				
EXPENDITURES:				
Materials and services	8,000	24,000 (1)	15,167	(8,833)
Contingency	25,000	9,000	-	(9,000)
	<u>33,000</u>	<u>33,000</u>	<u>15,167</u>	<u>(17,833)</u>
Total Expenditures				
Excess of Revenues Over Expenditures	2,000	12,000	78,197	66,197
OTHER FINANCING SOURCES (USES)				
Special payments - grants and loans	(25,000)	(35,000)	(28,930)	6,071
	<u>(23,000)</u>	<u>(23,000)</u>	<u>49,268</u>	<u>72,268</u>
Net Change in Fund Balance				
Beginning Fund Balance	195,631	195,631	203,990	8,359
	<u>195,631</u>	<u>195,631</u>	<u>203,990</u>	<u>8,359</u>
Ending Fund Balance				
	<u>\$ 172,631</u>	<u>\$ 172,631</u>	<u>\$ 253,258</u>	<u>\$ 80,627</u>

(1) Appropriation Level

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance To Final Budget
REVENUES:				
Property taxes	\$ -	\$ -	\$ 1,808	\$ 1,808
Intergovernmental	-	-	180,900	180,900
Total Revenues	<u>-</u>	<u>-</u>	<u>182,708</u>	<u>182,708</u>
EXPENDITURES:				
Materials and services	500	500 (1)	-	(500)
Debt service	181,500	181,500 (1)	181,350	(150)
Total Expenditures	<u>182,000</u>	<u>182,000</u>	<u>181,350</u>	<u>(650)</u>
Excess of Revenues Over (Under) Expenditures	<u>(182,000)</u>	<u>(182,000)</u>	<u>1,358</u>	<u>183,358</u>
OTHER FINANCING SOURCES (USES)				
Transfer in - loan repayment	182,000	182,000	42,984	(139,016)
Transfer out	(3,315)	(3,315) (1)	(3,315)	-
Total Other Financing Sources (Uses)	<u>178,685</u>	<u>178,685</u>	<u>39,669</u>	<u>(139,016)</u>
Net Change in Fund Balance	<u>(3,315)</u>	<u>(3,315)</u>	<u>41,027</u>	<u>44,342</u>
Beginning Fund Balance	<u>3,315</u>	<u>3,315</u>	<u>2,564,036</u>	<u>2,560,721</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,605,063</u>	<u>\$ 2,605,063</u>

(1) Appropriation Level

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

CAPITAL PROJECT FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Variance To Final Budget	Budget Basis	Adjustment	GAAP Basis
REVENUES:						
System development charges	\$ 185,660	\$ 185,660	\$ 40,864	\$ 226,524	\$ -	\$ 226,524
Miscellaneous	-	12,700	(12,675)	25	-	25
Interest	380	380	605	985	-	985
Total Revenue	186,040	198,740	28,794	227,534	-	227,534
EXPENDITURES:						
SDC park improvement	5,000	17,700	(1) (2,461)	15,239		15,239
Street improvements	10	10	(1) (10)	-	-	-
Bond discount and fees	-	-	(1) 19,405	19,405		19,405
Debt service	175,300	189,400	(1) 809,469	998,869	-	998,869
Contingency	53,898	9,798	(1) (9,798)	-	-	-
Total Expenditures	234,208	216,908	816,605	1,033,513	-	1,033,513
Excess of Revenues Under Expenditures	(48,168)	(18,168)	(787,811)	(805,979)	-	(805,979)
OTHER FINANCING SOURCES (USES)						
Refunding bond proceeds	-	-	805,230	805,230	-	805,230
Refunding bond premium	-	-	49,709	49,709	-	49,709
Transfer in	15,010	59,110	(59,110)	-	-	44,100
Transfer out	(7,500)	(51,600)	-	(51,600)	-	(51,600)
Total Other Financing Sources (Uses)	7,510	7,510	795,829	803,339	-	847,439
Net Change in Fund Balance	(40,658)	(10,658)	8,018	(2,640)	-	41,460
Beginning Fund Balance	31,703	31,703	14,505	46,208	-	46,208
Ending Fund Balance	<u>\$ (8,955)</u>	<u>\$ 21,045</u>	<u>\$ 22,523</u>	<u>\$ 43,568</u>	<u>\$ -</u>	<u>\$ 87,668</u>

(1) Appropriation Level

Notes to the budget schedule:

During the year, a bond refunding was completed resulting in an overexpenditure of debt service to pay off refunded debt. This is an exception to local budget law and not considered to be an over-expenditure of appropriation.

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

WATER OPERATIONS FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance To Final Budget
REVENUES:				
Charges for services	\$ 525,000	\$ 525,000	\$ 542,545	\$ 17,545
Interest on investments	299	299	322	23
	525,299	525,299	542,867	17,568
EXPENDITURES:				
Water operations	513,108	513,108 (1)	470,212	(42,896)
SDC water improvement	25,000	25,000 (1)	-	(25,000)
Debt service	11,500	12,500 (1)	135,357	122,857
Contingency	70,000	69,000 (1)	-	(69,000)
	619,608	619,608	605,569	(14,039)
Excess of Revenues Over (Under) Expenditures	(94,309)	(94,309)	(62,702)	31,607
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	130,075	130,075
Net Change in Fund Balance	(94,309)	(94,309)	67,373	161,682
Beginning Fund Balance	183,383	183,383	238,583	55,200
Ending Fund Balance	\$ 89,074	\$ 89,074	\$ 305,956	\$ 216,882

(1) Appropriation Level

**RECONCILIATION OF BUDGETARY BASIS TO
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

Capital assets, net of depreciation	683,981
Deferred outflows	15,706
Long-term debt	(118,200)
Other post-employment benefits	(18,896)
Net pension liability	(65,149)
Deferred inflows	(32,165)
Ending net position	\$ 771,233

Notes to the budget schedule:

During the year, a bond refunding was completed resulting in an overexpenditure of debt service to pay off refunded debt. This is an exception to local budget law and not considered to be an over-expenditure of appropriation.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

WASTEWATER OPERATIONS FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget		Actual	Variance To Final Budget
REVENUES:					
Charges for services	\$ 2,808,000	\$ 2,838,630		\$ 2,954,053	\$ 115,423
Assessments	21,730	1,100		4,325	3,225
Rental income	1,500	1,500		2,351	851
SDC revenue	-	-		78,695	78,695
Grant revenue	-	-		120,500	120,500
Interest on investments	1,300	1,300		3,799	2,499
Miscellaneous	-	-		-	-
Total Revenues	<u>2,832,530</u>	<u>2,842,530</u>		<u>3,163,723</u>	<u>321,193</u>
EXPENDITURES:					
Wastewater operations	2,328,711	2,368,711	(1)	2,295,899	(72,812)
SDC improvements	960	10,960	(1)	10,789	(171)
SDC reimbursement	10	10	(1)	-	(10)
Debt service	482,800	482,800	(1)	534,295	51,495
Contingency	128,338	88,338	(1)	-	(88,338)
Total Expenditures	<u>2,940,819</u>	<u>2,950,819</u>		<u>2,840,983</u>	<u>(109,836)</u>
Excess of Revenues Over Expenditures	<u>5,773,349</u>	<u>5,793,349</u>		<u>6,004,706</u>	<u>211,357</u>
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	-		55,746	55,746
Transfers In	123,325	123,325		123,315	(10)
Transfers Out	(130,143)	(130,143)		(153,271)	(23,128)
Total Other Financing Sources (Uses)	<u>(6,818)</u>	<u>(6,818)</u>		<u>25,790</u>	<u>32,608</u>
Net Change in Fund Balance	(115,107)	(115,107)		348,530	463,637
Beginning Fund Balance	<u>757,258</u>	<u>757,258</u>		<u>869,303</u>	<u>112,045</u>
Ending Fund Balance	<u>\$ 642,151</u>	<u>\$ 642,151</u>		<u>1,217,833</u>	<u>\$ 575,682</u>

(1) Appropriation Level

**RECONCILIATION OF BUDGETARY BASIS TO
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

Capital assets, net of depreciation	26,179,588
Deferred outflows	15,706
Accrued interest payable	(36,362)
Notes and bonds payable	(10,673,040)
Other post-employment benefits	(18,896)
Net pension liability	(65,149)
Deferred inflows	(104,763)
Ending net position	<u>\$ 16,514,918</u>

Notes to the budget schedule:

During the year, a bond refunding was completed resulting in an overexpenditure of debt service to pay off refunded debt. This is an exception to local budget law and not considered to be an over-expenditure of appropriation.

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

AIRPORT OPERATIONS FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance To Final Budget
REVENUES:				
Charges for services	\$ 433,700	\$ 433,700	\$ 575,416	\$ 141,716
Intergovernmental	-	2,679,603	663,335	(2,016,268)
Rental income	222,610	222,610	230,155	7,545
Interest on investments	250	250	65	(185)
Miscellaneous	-	-	8,472	8,472
	656,560	3,336,163	1,477,443	(1,858,720)
EXPENDITURES:				
Airport operations	631,199	609,199 (1)	513,173	(96,026)
Airport construction	8,541	2,865,603 (1)	1,214,392	(1,651,211)
Debt service	93,750	122,850 (1)	1,198,681	1,075,831
Contingency	44,922	15,822 (1)	-	(15,822)
	778,412	3,613,474	2,926,246	(687,228)
Excess of Revenues Over (Under) Expenditures	(121,852)	(277,311)	(1,448,803)	(1,171,492)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	1,136,767	1,136,767
Transfers in	48,541	48,541	40,000	(8,541)
	48,541	48,541	1,176,767	1,128,226
Net Change in Fund Balance	(73,311)	(228,770)	(272,036)	(43,266)
Beginning Fund Balance	73,311	228,770	290,118	61,348
Ending Fund Balance	\$ -	\$ -	18,082	\$ 18,082

(1) Appropriation Level

**RECONCILIATION OF BUDGETARY BASIS TO
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

Capital assets, net of depreciation	11,996,999
Accrued interest payable	(1,737)
Notes and bonds payable	(1,092,746)
Deferred outflows	(47,044)
Ending net position	\$ 10,873,554

Notes to the budget schedule:

During the year, a bond refunding was completed resulting in an overexpenditure of debt service to pay off refunded debt. This is an exception to local budget law and not considered to be an over-expenditure of appropriation.

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

INTERNAL SERVICES FUND

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance To Final Budget
REVENUES:				
Charges for services	\$ 3,289,117	\$ 3,289,117	\$ 3,272,295	\$ (16,822)
Intergovernmental	75,000	81,400	76,700	(4,700)
Licenses and fees	38,500	38,500	69,921	31,421
Interest on investments	1,600	1,600	18,440	16,840
Miscellaneous	-	-	12,872	12,872
Rental income	200	200	-	(200)
	<u>3,404,417</u>	<u>3,410,817</u>	<u>3,450,228</u>	<u>39,411</u>
Total Revenues				
EXPENDITURES:				
Central services	997,058	1,041,058 (1)	938,235	(102,823)
Public works	1,399,697	1,592,097 (1)	1,447,789	(144,308)
Building	193,131	193,131 (1)	165,241	(27,890)
Fleet	446,500	476,500 (1)	376,050	(100,450)
Debt service	220,600	220,600 (1)	219,712	(888)
Contingency	270,000	96,000 (1)	-	(96,000)
	<u>3,526,986</u>	<u>3,619,386</u>	<u>3,147,027</u>	<u>(472,359)</u>
Total Expenditures				
Excess of Revenues Over (Under) Expenditures	(122,569)	(208,569)	303,201	511,770
OTHER FINANCING SOURCES (USES)				
Transfers Out	(206,949)	(206,949) (1)	(180,713)	26,236
	<u>(206,949)</u>	<u>(206,949)</u>	<u>(180,713)</u>	<u>26,236</u>
Net Change in Fund Balance				
	(329,518)	(415,518)	122,488	538,006
Beginning Fund Balance				
	<u>645,850</u>	<u>731,850</u>	<u>777,494</u>	<u>45,644</u>
Ending Fund Balance				
	<u>\$ 316,332</u>	<u>\$ 316,332</u>	899,982	<u>\$ 583,650</u>

**RECONCILIATION OF BUDGETARY BASIS TO
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

Capital assets, net of depreciation	7,788,164
Deferred outflows	168,900
Accrued interest payable	(16,501)
Notes and bonds payable	(3,672,172)
Compensated absences	(112,308)
Other post-employment benefits	(188,958)
Net pension liability	(844,570)
Deferred inflows	(198,390)
	<u>(3,633,995)</u>
Ending net position	<u>\$ 3,824,147</u>

(1) Appropriation Level

OTHER FINANCIAL SCHEDULES

CITY OF MADRAS
(Jefferson County, Oregon)

**SCHEDULE OF OUTSTANDING DEBT PRINCIPAL
AND INTEREST TRANSACTIONS**

YEAR ENDED JUNE 30, 2016

	INTEREST RATE	DATE OF ISSUE	OUTSTANDING JULY 1, 2015	ISSUED	MATURED AND PAID	OUTSTANDING JUNE 30, 2016	INTEREST MATURED AND PAID
GOVERNMENTAL FUNDS							
2012 Refunding Bond - Urban Renewal District	1.1-2.5%	5/15/2012	\$ 2,290,000	\$ -	\$ 105,000	\$ 2,185,000	\$ 75,900
Notes & Contracts Payable:							
Series 2015 Refunding	1.0-4.0%	9/16/2015	-	805,230	38,900	766,330	18,983
2004 Full Faith & Credit	2.0-4.0%	8/31/2004	400,513	-	94,528	305,985	15,420
Special Public Works Fund	4.00%	7/15/2005	788,601	-	788,601	-	26,666
Line of Credit - Urban Renewal District	2.50%	6/30/2015	100,000	150,000	-	250,000	-
Total Governmental Funds			3,579,114	-	1,027,029	3,507,315	136,969
ISF Building Fund (Governmental Activities)							
Building Loan	3.0-5.2%	3/1/2011	1,610,000	-	50,000	1,560,000	72,583
USDA Loan	3.125%	3/22/2013	2,142,353	-	30,181	2,112,172	66,949
Total ISF Building Fund			3,752,353	-	80,181	3,672,172	139,532
Total Governmental Activities			7,331,467	-	1,107,210	7,179,487	276,501
ENTERPRISE FUNDS							
Water Fund							
Notes & Contracts Payable:							
Special Public Works Fund	4.97%	12/23/2004	121,643	-	121,643	-	4,787
Bonds Payable:							
Series 2015 Refunding	1.0-4.0%	9/16/2015	-	124,200	6,000	118,200	2,928
Total Water Fund			121,643	-	127,643	118,200	7,715
Wastewater Fund							
Notes & Contracts Payable:							
Special Public Works Fund	4.97%	12/23/2004	52,133	-	52,133	-	2,051
Oregon DEQ	2.71%	11/1/2013	174,800	-	7,388	167,412	4,687
Bonds Payable:							
Sewer General Obligation	5.00%	8/1/1975	-	-	-	-	-
Series 2013 Refunding	2-4.125%	1/29/2013	10,495,000	-	40,000	10,455,000	424,210
Series 2015 Refunding	1.0-4.0%	9/16/2015	-	53,199	2,570	50,629	1,254
Total Wastewater Fund			10,721,933	-	102,091	10,673,041	432,202
Airport Fund							
Notes & Contracts Payable:							
Special Public Works Fund	4.99%	10/2/2008	981,711	-	981,711	-	39,327
Jefferson County- Berg Drive	3.00%	7/15/2013	61,505	-	3,600	57,905	1,845
Bonds Payable:							
1996 Revenue bonds	5.13%	7/19/1996	88,796	-	88,796	-	689
Series 2015 Refunding	1.0-4.0%	9/16/2015	-	1,087,371	52,530	1,034,841	25,634
Total Airport Fund			1,132,012	1,087,371	1,126,637	1,092,746	67,495
Total Enterprise Fund			11,975,588	1,087,371	1,356,371	11,883,987	507,412
Total			\$ 19,307,055	\$ 1,087,371	\$ 2,463,581	\$ 19,063,474	\$ 783,913

**REPORTS ON LEGAL AND OTHER
REGULATORY REQUIREMENTS**



INDEPENDENT AUDITORS REPORT REQUIRED
BY OREGON STATE REGULATIONS

We have audited the basic financial statements of the City of Madras, Oregon as of and for the year ended June 30, 2016, and have issued our report thereon dated December 22, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295)
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe the City of Madras, Oregon was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

INDEPENDENT AUDITORS REPORT REQUIRED
BY OREGON STATE REGULATIONS - continued

Over-expenditure of appropriations:

- Transfers out in the Wastewater Fund exceeded appropriation by \$23,128.

Oregon Local Budget Law Violations:

- During the fiscal year 2016-17 budget process, the City published their second meeting notice on their website, however the first publication in the newspaper did not include the website address as required when not publishing a second notice in a newspaper of general circulation.
- In the publication of a supplemental budget hearing, errors were made in the reporting of which funds were to be changed.
- The City Council approved a budgeted a negative fund balance in the Capital Project Fund which is a violation of Local Budget Law.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

We noted matters involving the internal control structure and its operation that we consider to be material weaknesses under the standards established by the American Institute of Certified Public Accountants which are described in the Schedule of Findings and Responses.

This report is intended solely for the information and use of the Council, management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Brenda Bartlett, CPA

SGA Certified Public Accountants and Consultants, LLP

December 22, 2016



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Madras, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and aggregate remaining fund information of the City of Madras (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as Finding #2016-1 in the accompanying Schedule of Findings and Responses to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS* - continued**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance with law or agreements that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and is not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Brenda Bartlett, CPA
SGA Certified Public Accountants and Consultants, LLP

December 22, 2016

CITY OF MADRAS
(Jefferson County, Oregon)

SCHEDULE FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2016

2016-1

Condition: There is a general lack of control over the year-end closing process.

Criteria: The year-end financial closing process should include procedures designed to ensure that balance sheet and income statement accounts are accurate, complete and include verifiable documentation and reported in accordance with Generally Accepted Accounting Principles (GAAP).

Effect: The possibility exists that errors or irregularities exist and not be promptly detected. We noted a significant number of journal entries were proposed during the course of the audit to report in accordance with GAAP.

Cause: Near the end of the fiscal year, the former Finance Director left her position and a new Finance Director was hired. It appears that much of the internal control over the year-end closing process was performed personally by the former Finance Director, as opposed to being part of a systemic control system involving the entire finance staff. Because the new Finance Director was not familiar with City and its particular transactions and cycles, there were many balances and transactions she was not aware would need to be reconciled and/or reviewed prior to audit.

Recommendation: We recommend the City implement an overall closing process where Finance Director review of staff work ensures the schedules are complete, accurate and tie out to the balance in the general ledger. Part of this process should be that the system is overly reliant on the expertise of the Finance Director, staff should be fully trained to understand their particular sections so they have the opportunity to correct any errors before Finance Director review.

Management's response: The Finance Team has been in transition for the past year with the new Finance Director hired June 1, 2016. The three remaining staff members had a combined average accounting experience of less than one year. Intense focus is currently concentrated on training employees to understand their jobs and its value to the organization, encouraging the team's growth through a more intimate knowledge of the GL and the types of transactions that are appropriate, in addition to creating opportunities for the staff to expand their knowledge base. Cross-training and teamwork has become a more integral part of the daily expectation for employees. As the City continues through the transition, the hiring process for new employees will focus on recruiting staff with more extensive knowledge and experience in the accounting field. Through this type of collaborative environment, where the team is expected to both understand and be responsible for their respective jobs while supporting the City's objectives, subsequent City audits will be completed in a more comprehensive manner.

CITY OF MADRAS
(Jefferson County, Oregon)

POST COMPLIANCE REPORTING

YEAR ENDED JUNE 30, 2016

Local Oregon Capital Assets Program, Certificates of Participation, Series 2011B (“2011B COPs”)
Local Oregon Capital Assets Program, Certificates of Participation, Series 2011B (“2012B COPs”)
City of Madras, Full Faith and Credit Refunding Obligations, Series 2013 (“2013 Obligations”)
City of Madras, Full Faith and Credit Refunding Obligations, Series 2015 (“2015 Obligations”)

Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”) requires at least annual disclosure of current financial information and timely disclosure of certain events with respect to the Obligations, if material. Pursuant to the Rule, the City has agreed to provide to the Municipal Securities Rulemaking Board (“MSRB”), audited financial information of the City and certain financial information or operating data. In addition, the City has agreed to provide to the MSRB, notice of certain events, pursuant to the requirements of Section (b)(5)(i) of the Rule.

The following information meets the other operating data required to be reported with the audited financial information of the City under the Securities and Exchange Commission Rule 15c2-12.

Property Values – City of Madras

Taxable Property Values

The City					
Permanent Levy and Bond Levy					
Fiscal Year	Measure 5 Real Market Value	Total Taxable Assessed Value	Urban Renewal Excess Value	Assessed Value to compute the Taxes	Taxes to Be Received General Fund
2016	\$369,700,511	\$318,255,793	\$23,978,363	\$294,277,430	\$1,214,558
2015	375,072,095	305,835,643	22,317,792	283,517,851	1,177,669
2014	362,214,121	283,117,698	21,112,484	262,005,214	1,150,281
2013	358,443,373	274,904,016	20,541,405	254,362,611	1,114,497
2012	369,575,050	279,339,617	21,942,895	257,396,722	1,130,073
2011 ³	407,423,469	296,192,033	20,677,896	275,141,137	1,207,632

¹ Value represents the Real Market Value of taxable properties, including the reduction in Real Market Value of specially assessed properties such as farm and forestland. This value is also commonly referred to as the Measure 5 Real Market Value by county assessors.

² Assessed value of property in the City on which the permanent rate is applied to derive *ad valorem* property taxes, excluding any other offsets.

³ In Fiscal Year 2011 the values for the permanent levy and the bond levy differed as the valuations for City’s permanent levy was subject a “Phase-in Levy” for industrial property annexed by the City. The Phase-in Levy was in place for seven years and sunset in Fiscal Year 2010/11. For Fiscal Year 2010/11 the City’s Measure 5 Real Market Value, Total Taxable Assessed Value, and Assessed Value to Compute the Taxes were equal to \$346,839,908, \$243,447,167 and \$222,769,271, respectively. The differences between the valuations shown in the table above represent the Phase-In Levy Valuations.

Source: Jefferson County Department of Assessment and Taxation and the Oregon Department of Revenue.

CITY OF MADRAS
(Jefferson County, Oregon)

POST COMPLIANCE REPORTING

YEAR ENDED JUNE 30, 2016

Tax Rate History and Percent Collected

Tax Collection Record¹

Percent collected as of

Fiscal Year	Permanent Tax Rate	Bond Tax Rate	Local Option Rate	Percent collected as of	
				Levy Year ²	6/30/2016 ³
2016	\$4.1262	\$0.000	\$0.00	97.4%	97.4%
2015	4.1262	0.000	0.00	96.7	98.3
2014	4.1262	0.2996	0.00	96.4	99.1
2013	4.1262	0.3602	0.00	95.7	99.6
2012	4.1262	0.3728	0.00	95.3	99.9
2011	4.1262	0.3689	0.00	94.7	99.9

¹ Percentage of total tax levy collection in the County. Pre-payment discounts are considered to be collected when outstanding taxes are calculated. The tax rates are before offsets.

² The percentage of taxes collected in the “year of the levy” represents taxes collected in a single levy year, beginning July 1 and ending June 30.

³ The percentage of taxes collected represents taxes collected for that levy year through June 30, 2016.

Source: *Jefferson County Department of Assessment and Taxation.*

Major Taxpayers – City of Madras

(Fiscal Year 2015-2016)

The following table shows the top taxpayers in the City.

Taxpayer	Business/Service	Tax ¹	Assessed Value ²	Percent of Value
Bright Wood Corporation	Manufacturer (Wood Components)	\$363,376.14	\$19,867,870	6.24%
Keith Manufacturing	Manufacturer (Material Handling Systems)	117,424.01	6,421,490	2.02
Safeway, Inc.	Grocer	109,914.82	5,513,550	1.73
PacifiCorp	Power Utility	85,664.70	4,684,690	1.47
East Cascade Retirement	Retirement Community	77,601.46	4,243,740	1.33
Keith Investments	Manufacturer	57,147.26	3,108,960	0.98
RGV Palisades LLC	Commercial Property	47,168.08	2,579,450	0.81
Karoma Properties, LLC	Commercial Property	46,246.91	2,421,000	0.76
Cross Keys LLC	Lodging	45,263.71	2,270,520	0.71
Albina Fuel Co. Inc.	Petroleum Products	45,093.65	2,461,940	0.77
Subtotal - Ten largest		<u>\$994,900.74</u>	53,573,210	16.83%
All other City taxpayers			264,682,583	83.17
Total City			<u>\$318,255,793</u>	100.0%

¹ Tax amount is the total tax paid by the taxpayer. This amount is distributed to individual local governments by the County. A breakdown of amounts paid to each individual local government is not available.

² Assessed value does not exclude offsets such as urban renewal and farm tax credits.

Source: *Jefferson County Department of Assessment and Taxation.*

CITY OF MADRAS
(Jefferson County, Oregon)

POST COMPLIANCE REPORTING

YEAR ENDED JUNE 30, 2016

Major Taxpayers – Jefferson County

(Fiscal Year 2015-2016)

The following table shows the top taxpayers in the County.

Taxpayer	Business/Service	Tax ¹	Assessed Value ²	Percent of Value
Portland General Electric	Electric Utility	\$3,548,203.20	\$250,988,810	15.79%
Northwest Corp. Gas Trans.	Gas Utility	584,496.77	43,639,030	2.75
PacifiCorp	Power Utility	501,043.70	32,547,000	2.05
Bright Wood Corporation	Manufacturer (Wood Components)	372,775.69	20,462,430	1.29
Warm Springs Power Enterprises	Hydroelectric Utilities	229,269.78	16,250,000	1.02
Keith Manufacturing Inc./Keith investments	Manufacturer (Material Handling Systems)	192,854.38	10,537,530	0.66
Burlington Northern Sante Fe	Railroad	129,024.22	8,392,570	0.53
Safeway, Inc.	Grocer	128,217.38	6,514,450	0.41
Union Pacific Railroad	Railroad	102,698.24	6,541,000	0.41
Centurylink	Telecommunications	93,711.31	5,735,000	0.36
Subtotal - Ten largest taxpayers		<u>\$5,653,024.89</u>	\$401,607,820	25.26
All other County taxpayers			<u>1,187,983,690</u>	74.74
Total County			\$1,589,591,510	100.0%

¹ Tax amount is the total tax paid by the taxpayer within the boundaries of the County. This amount is distributed to individual local governments by the County. A breakdown of amounts paid to each individual local government is not available.

² Assessed value does not exclude offsets such as urban renewal and farm tax credits.

³ Portland General Electric ("PGE") operates the Pelton Round Butte hydroelectric project. It is the only project in the U.S. jointly owned by a Native American tribe and a utility. Currently, the project is two-thirds owned by PGE, and one-third owned by the Confederated Tribes of the Warm Springs Reservation of Oregon, through its Warm Springs Power Enterprises. The project is located on the Deschutes River in Jefferson County approximately six miles west of Madras, and approximately 90 miles southeast of downtown Portland. About one third of the central hydro project (dams, reservoirs and shore land) is located on the Warm Springs Reservation. Source: portlandgeneral.com.

Source: Jefferson County Department of Assessment and Taxation

CITY OF MADRAS
(Jefferson County, Oregon)

POST COMPLIANCE REPORTING

YEAR ENDED JUNE 30, 2016

Summary of Overlapping Debt

Fiscal Year 2015/16				
Overlapping Issuer Name	Overlapping Real Market Valuation	Percent Overlapping	Overlapping Debt	
			Gross Property Tax-Backed Debt ¹	Net Property Tax-Backed Debt ²
Central Oregon Community College	\$34,331,993,269	1.25%	\$818,204	\$713,866
Jefferson County	2,452,187,296	17.55	1,397,611	1,397,611
Jefferson County RFPD 1 (Madras)	1,091,939,854	39.41	78,811	78,811
Jefferson Co./Madras School District No. 509J	1,475,126,084	29.17	12,459,151	12,459,151
Madras Aquatic Center	1,440,446,817	29.87	1,554,817	1,554,817
North Unit Irrigation District	60,074,901	100.00	451,247	0
			\$16,759,841	\$16,204,256

¹ Gross Property Tax-Backed Debt includes all limited and unlimited tax supported debt.

² Net Property Tax-backed Debt is Gross Property Tax-Backed debt less self-supporting unlimited tax general obligation debt and less self-supporting full faith and credit debt.

Source: Debt Management Division, the Office of the State Treasurer.

Debt Ratios

The following table presents information regarding the City's tax supported direct debt, including the Obligations, and the estimated portion of the debt of overlapping taxing districts allocated to the City's property owners. Property tax-backed debt shown in the following table does not include appropriation credits, conduit revenue bonds, dedicated niche obligations, revenue bonds, obligations issued for less than 13-month, lease purchase agreements, loans, lines of credit or other non-publicly offered financial obligations.

Debt Ratios		
Real Market Value	\$430,284,072	
Estimated Population	6,265	
Per Capita Real Market Value	\$68,681	
Debt Information	Gross Property Tax- Backed Debt ^{1,2}	Net Property Tax- Backed Debt ^{1,3}
Direct Debt	\$14,200,000	\$3,745,000
Overlapping Direct Debt	16,759,841	16,204,256
Total Direct Debt	<u>\$30,959,841</u>	<u>\$19,949,256</u>
Bonded Debt Ratios ¹		
Direct Debt to Real Market Value	3.30%	0.87%
Total Direct Debt to Real Market Value	3.90%	4.64%
Per Capita Direct Debt	\$2,267	\$598
Per Capita Total Direct Debt	\$4,942	\$3,184

**CITY OF MADRAS
(Jefferson County, Oregon)**

POST COMPLIANCE REPORTING

YEAR ENDED JUNE 30, 2016

¹ Preliminary; subject to change.

² Gross Property Tax-Backed Debt includes all limited and unlimited tax supported debt, including the Obligations.

³ Net Property Tax-backed Debt is Gross Property Tax-Backed debt less self-supporting unlimited tax general obligation debt and less self-supporting full faith and credit debt. The Obligations are *NOT* classified as self-supporting for the purposes of this table.

Source: Jefferson County, Oregon State Treasury, City's Audited Financial Statements and the Obligations.

City Pension Plan Actuarial Valuations

	Actuarial Valuation as of			
	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Allocated Pooled SLGRP T1/T2 UAL	\$1,859,819	\$1,411,873	\$2,587,569	\$3,397,232
Allocated Pre SLGRP pooled liability/(surplus)	\$0	\$0	0	0
Transition liability/(surplus)	\$(602,535)	\$(594,832)	\$(586,450)	\$(575,750)
Allocated pooled OPSRP UAL	\$128,029	\$131,663	\$183,201	\$252,176
Side Account	\$0	\$0	\$0	\$0
Net unfunded pension actuarial accrued liability	\$1,385,313	\$948,704	\$2,184,320	\$3,073,658
Combined Valuation Payroll	\$1,816,462	\$1,862,119	\$1,602,507	\$1,773,836
Net Pension UAL as a % of Payroll	76%	51%	136%	173%
Pre-SLGRP Pooled Rate	0.00%	0.00%	0.00%	0.00%
Transition Rate	(2.94)%	(2.98)%	(3.62)%	(3.42)%
Side Account Rate Relief	0.00%	0.00%	0.00%	0.00%
Allocated Pooled RHIA UAL	\$38,110	\$25,774	\$12,738	\$8,613
Allocated Pooled RHIPA UAL	\$0	\$0	\$0	\$0

Source: Oregon Public Employees Retirement System (OPERS) website, 2015 Actuarial Valuations

Possible Contribution Rate Collar

12/31/2015 Valuation:

The rate collar limits changes in contribution rates for the rate pool, but does not limit changes in rates for individual employers related to pre-SLGRP liabilities or side accounts. In addition, changes in an individual employer's workforce between Tier 1 and Tier 2 or between general service and police and fire can impact that employer's normal cost rate in a way that is not limited by the collar. The table below shows the possible minimum and maximum rates for the SLGRP first effective as of July 1, 2019, which will depend on the funded status as of December 31, 2017. If the Pool's funded status excluding side accounts is less than 60 percent or greater than 140 percent, the rate collar doubles in size. If the Pool's funded status excluding side accounts is between 60 and 70 percent or between 130 and 140 percent, the size of the rate collar is increased on a graded scale. The rates shown are before any adjustment for side account rate offsets or pre-SLGRP liabilities.

**CITY OF MADRAS
(Jefferson County, Oregon)**

POST COMPLIANCE REPORTING

YEAR ENDED JUNE 30, 2016

	70% to 130%	Under 60% or Over 1140%
Funded Status as of December 31, 2017		
2017-2019 Normal Cost & Tier 1/Tier 2 UAL Rate	21.88%	21.88%
Minimum July 1, 2019 Rate	17.50%	13.12%
Maximum July 1, 2019 Rate	26.26%	30.64%